

DRILLING DOWN ON AMERICA'S ENERGY FUTURE: SAFETY, SECURITY, AND CLEAN ENERGY

HEARING BEFORE THE SUBCOMMITTEE ON ENERGY AND ENVIRONMENT OF THE COMMITTEE ON ENERGY AND COMMERCE HOUSE OF REPRESENTATIVES ONE HUNDRED ELEVENTH CONGRESS SECOND SESSION

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TUESDAY, JUNE 15, 2010

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ENERGY AND ENVIRONMENT,
COMMITTEE ON ENERGY AND COMMERCE,
Washington, DC.

The subcommittee met, pursuant to call, at 9:36 a.m., in Room 2123, Rayburn House Office Building, Hon. Edward J. Markey [chairman of the subcommittee] presiding.

Present: Representatives Markey, Doyle, Inslee, Butterfield, Matsui, McNerney, Welch, Dingell, Engel, Green, Capps, Harman, Gonzalez, Baldwin, Ross, Matheson, Barrow, Waxman [ex officio], Upton, Hall, Stearns, Whitfield, Shimkus, Shadegg, Blunt, Pitts, Bono Mack, Sullivan, Burgess, Scalise, Griffith, and Barton [ex officio].

Also Present: Representatives Stupak, Jackson Lee, Weiner, DeGette, and Cao.

Staff Present: Phil Barnett, Staff Director; Kristin Amerling, Chief Counsel; Bruce Wolpe, Senior Advisor; Greg Dotson, Chief Counsel, Energy and Environment; Alexandra Teitz, Senior Counsel; Jackie Cohen, Counsel; Michal Freedhoff, Counsel; Alex Barron, Professional Staff Member, Melissa Cheatham, Professional Staff Member; Caitlin Haberman, Special Assistant; Peter Kethcham-Colwill, Special Assistant; Dave Levis, Chief Oversight Counsel; Meredith Fuchs, Chief Investigative Counsel; Scott Schloegel, Investigator; Karen Lightfoot, Communications Director, Senior Policy Advisor; Elizabeth Letter, Special Assistant; Earley Green, Chief Clerk; Jen Berenholz, Deputy Clerk; Mitchell Smiley, Special Assistant; Mary Neumayr, Minority Counsel, Oversight/Energy; Aaron Cutler, Minority Counsel, Energy and Oversight; Andrea Spring, Minority Professional Staff Member, E&E; and Garrett Golding, Minority Legislative Analyst, Energy/EHM/Telecom.

OPENING STATEMENT OF HON. EDWARD J. MARKEY, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF MASSACHUSETTS

Mr. MARKEY. The committee will come to order. Fifty-seven days ago, in the dead of night, the worst environmental nightmare in U.S. history began. On a screen here and in homes across the country, we now see the live video of tens of thousands of barrels of oil billowing into the Gulf of Mexico every day. For years the oil indus-

try swore this could never happen. We were told the technology had advanced, that offshore drilling was safe. BP said they didn't think the rig would sink; it did. They said they could handle a Exxon Valdez-size spill every day; they couldn't. BP says the spill was 1,000 barrels per day; it wasn't and they knew it.

Now the other companies here today will contend that this was an isolated incident. They will say a similar disaster could never happen to them, and yet it is this kind of blind faith which is, ironically, the name of an actual rig in the gulf that has led to this kind of disaster.

In preparation for this hearing the committee reviewed the oil spill safety response plans for all of the companies here today. What we found was that these five companies have response plans that are virtually identical. The plans cite identical response capabilities and tout identical ineffective equipment. In some cases they use the exact same words.

We found all of these companies, not just BP, made the exact same assurances. The covers of the five response plans are different colors, but the content is 90 percent identical. Like BP, three other companies include references to protecting walruses, which have not called the Gulf of Mexico home for 3 million years. Two other plans are such dead ringers for BP's that they list a phone number for the same long-dead expert. The American people deserve oil safety plans that are ironclad and not boilerplate.

We now know the oil industry and the government agency tasked with regulating them determined that there was a zero chance that this kind of undersea disaster could ever happen. When you believe that there is zero chance of a disaster happening, you do zero disaster planning. And the oil industry has invested zero time and money into developing safety and response efforts.

The oil companies before us today amassed nearly \$289 billion in profits over the last 3 years. They spent \$39 billion to explore for new oil and gas. Yet the average investment in research and development for safety, accident prevention, and spill response was a paltry \$20 million per year, less than one-tenth of 1 percent of their profits.

The oil companies may think it is fine to produce carbon copies of their safety plans, but the American people expect and deserve more. It is time to expect more from the oil industry and that needs to start today.

First, Congress must ensure that there is unlimited liability for oil spills by oil companies. While we try to cap this well, we must lift the cap on oil industry liability.

Second, Congress must also enact wide-ranging safety reforms for offshore drilling. If oil companies are going to pursue ultra-deep drilling, we must ensure that it is ultra-safe and that companies can respond ultra-fast.

Third, the free ride is over. Oil companies need to pay their fair share to drill on public land. Right now, every single one of the companies here today, and dozens of others, are drilling for free in the Gulf of Mexico on leases that will cost American taxpayers more than \$50 billion in lost royalties.

And fourth, we must ensure that new technologies are developed for capping wells, boosting safety, and cleaning up spills.

I will soon introduce the Oil SOS Act to ensure we have 21st century technologies in place for 21st century drilling risks.

And finally, America must move to a safer, clean energy future so that we don't have to rely as much on oil to power our cars and our economy.

The American people deserve answers from the oil industry and I look forward to the testimony of our witnesses.

I would like now to recognize my distinguished colleague from Michigan, the ranking member of the subcommittee, the gentleman again from Michigan Mr. Upton.

OPENING STATEMENT OF HON. FRED UPTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. UPTON. Thank you, Mr. Chairman. I thank you for calling this very important hearing. What happened on the Deepwater Horizon rig was truly a national tragedy. The loss of life was heart-breaking and the environmental and economic damage that worsens by the day is gut-wrenching. As I said many times before, it needs to be made crystal clear to all involved, the polluter will pay. The American taxpayer should not and will not be on the hook for the cost of this accident, both economic and environmental. Nor should consumers be punished with tax increases passed in the name of the BP spill. They will only serve to add cost to hard-working Americans and further weaken our economy.

We now have the opportunity to look BP America in the eye and demand that they fulfill their responsibility for the disaster in the gulf, and an important step is the creation of an escrow account that ensures American taxpayers are not left holding the tab.

In the wake of this tragedy we must work together to find solutions that will protect consumers, taxpayers, and our national security. The cleanup has been too slow, way too slow and too indecisive. We want answers and we want them all. We have to work to ensure a disaster like this never happens again.

When that rig exploded and there are millions of gallons of oil leaking into the Gulf of Mexico, our economy and our national posture is indeed weakened. I am aware that each witness today was given a lengthy list of questions to answer in advance of the hearing. Many of these questions are constructive and relate to the problem at hand—questions about rig safety, about worst-case scenarios if there is another rig explosion and questions about chemical dispersants—legitimate and constructive questions that will help us forge a solution-oriented policy.

I am, however, disheartened to learn that a few of the questions have nothing to do with the disaster that we are trying to solve and serve the sole purpose of scoring political points and trying to advance an unrelated policy agenda that will raise taxes, eliminate American jobs, and leave consumers already struggling in this down economy with higher energy costs.

Some of those questions are: How much is your company invested in the deployment of renewable alternative energy? What steps do you believe that the U.S. Government and private industry should take to reduce the threat posed by climate change? Does your company support an economy-wide cap on greenhouse gas emissions that includes transportation fuels? Would your company

be able to pass any of the cost of purchasing emission allowances to its customers?

Frankly, I would prefer to bring up the cap-and-trade bill again on the House floor because I am convinced that this year it would fail rather than pass by the seven-vote margin that it did last summer, but that is not the issue at hand. Instead of taking time to talk about cap-and-tax or cap-and-trade, let's figure out how to cap the well. We are not here to discuss climate change but, rather, what each of our witnesses think went wrong on the Horizon rig and what policy change can be made to ensure that it never happens again. Let us not forget what is on the line here: jobs, the environment, our economy, and national security.

Three years ago when BP was caught increasing the discharge into Lake Michigan, I joined with the Great Lakes Caucus and our colleagues on both sides of the aisle across the Great Lakes to beat back the attempt to increase pollution in our lake. We didn't take a partisan posture, we worked together to solve the problem. We need similar bipartisanship here today.

The Gulf of Mexico accounts for almost a third of U.S. oil production. If we eliminate that supply, the dependency on foreign oil will indeed go up. Saudi Arabia will be happy, Hugo Chavez, Ahmadinejad. They will be popping champagne perhaps, but the American consumer will be remembering the good old days when gas was only \$4 a gallon.

The team of engineers tapped by Secretary Salazar to examine what went wrong on the Horizon rig recently, quote, "We believe the blowout was caused by a complex and highly improbable chain of human errors coupled with several equipment failures, and was preventable. The petroleum industry will learn from this. It can and will do better. We should not be satisfied until there are no deaths and no environmental impacts offshore, ever. However, we must understand with any human endeavor there will always be risks."

Let's learn from this awful mistake, fix the problem, clean up the gulf, and move forward to fixing our ailing economy and create private sector jobs. I yield back my time.

Mr. MARKEY. I thank the gentleman.

The chair recognizes the chairman of the full committee, the gentleman from California Mr. Waxman.

OPENING STATEMENT OF HON. HENRY A. WAXMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. WAXMAN. Chairman Markey, thank you for holding this hearing and for your tenacious work on this issue. You have been a true champion for transparency and accountability, and your efforts have kept Congress and the administration and the American people informed about the environmental disaster unfolding in the gulf.

Yesterday Chairman Stupak and I released a letter describing a series of questionable decisions made by BP in the days before the blowout. Time after time, BP appears to have taken shortcuts that increased the risks of catastrophic blowout. One of the central

questions for today's hearing is whether the other oil companies are any better prepared than BP.

Last week, after receiving a request from Representative Weiner, the committee asked each of the five major oil companies for their oil spill response plans. On paper they are very impressive, each document is more than 500 pages long. And if I might, I will hold up the document that is the contingency plan. But what they show is that ExxonMobil, Chevron, ConocoPhillips and Shell are no better prepared to deal with a major oil spill than BP.

The same company, The Response Group, wrote the five plans and describes them as cookie-cutter plans. Much of the text is identical. Four of the plans discuss how to protect walruses, but there are no walruses in the Gulf of Mexico.

We analyzed two key parts of the plans: the provisions for stopping a subsea blowout, like the one that is spewing oil across the gulf, and their worst-case scenarios. We found that none of the five oil companies has an adequate response plan.

It is instructive to compare ExxonMobil's plan for controlling a subsea blowout with BP's plan. Here is what BP says in its plan: In the event the spill source cannot be controlled by the facility operator or remotely with a safety system, BP will activate the oil spill response plan and assemble a team of technical experts to respond to the situation."

And here is what ExxonMobil says, and you can see the text on the screen. "In the event the spill source cannot be controlled by the facility operator or remotely with a safety system, ExxonMobil will activate the oil spill response and assemble a team of technical experts to respond to the situation." The plans are identical.

And so are the plans for Chevron and ConocoPhillips. Shell did not give us a well-controlled contingency plan, but it says Shell would use the same strategies of top kills and junk shots that have already failed.

Each of the five oil spill response plans also includes a section on responding to worst-case scenario involving an offshore exploratory well. On paper these plans look reassuring. BP's plan says it can handle a spill of 250,000 barrels per day. Both Chevron and Shell state they can handle over 200,000 barrels per day, and Exxon says it can handle over 150,000 barrels per day. That is far more oil than is currently leaking into the gulf of BP's well.

But when you look at the details, it becomes evident these plans are just paper exercisers. BP failed miserably when confronted with a real leak, and one can only wonder whether ExxonMobil and the other companies would do any better.

BP's plan says it contracted with the Marine spill Response Corporation to provide equipment for a spill response. All the other companies rely on the same contractor. BP's plan says another contractor will organize its oil spill removal. Chevron, Shell, and ExxonMobil use the same contractor. BP's plan relies on 22,000 gallons of dispersant stored in Kiln, Mississippi. Well, so do ExxonMobil and the other companies.

I could go on, but I think you get my point. These are cookie-cutter plans. ExxonMobil, Chevron, ConocoPhillips and Shell are as unprepared as BP was and that is a serious problem. In their testimony and responses to questions the companies say they are dif-

ferent than BP, but when you examine their actual oil spill response plans and compare them to BP, it is hard to share their confidence.

At this hearing Congress needs to review the evidence and pass new laws and put teeth into our regulatory system, but we cannot stop there. Our national energy policy is broken. We are addicted to oil and this addiction is fouling our beaches, polluting our atmosphere, and undermining our national security.

Thank you, Mr. Chairman.

Mr. MARKEY. We thank the chairman.

The chair recognizes the ranking member of the full committee, the gentleman from Texas Mr. Barton.

**OPENING STATEMENT OF HON. JOE BARTON, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

Mr. BARTON. Thank you, Chairman Markey, and I appreciate you and Chairman Waxman holding this hearing to bring our major oil company executives before us, and, in doing so, fore the American people.

I have a prepared statement I will submit for the record, I am going to speak extemporaneously. I have listened with interest to the opening statement of Chairman Markey and Chairman Waxman, I want to say that in terms of doing the investigation I commend the majority staff, especially on the Oversight and Investigation Subcommittee that Mr. Stupak holds. We are getting the facts assembled and putting them out in an open and transparent fashion so that the American people can understand, to the extent it is possible to understand, exactly what happened.

It is no question that the British Petroleum Oil Company who is the owner and chief operator of the rig that had the accident is responsible for the accident. It is also, as Mr. Waxman has pointed out, the responsibility of our major oil companies to have adequate contingency plans when things go wrong. So I am not trying to whitewash the private sector in terms of their responsibility for causing this problem, but I want to point out something that has not yet been pointed out. The five people most concerned about solving the problem are probably sitting before us today. ExxonMobil, Chevron, ConocoPhillips, Shell Oil and BP America have huge interests in getting it right and preventing it from ever being wrong again.

If you add the market caps of those five companies, they could not equal the market cap of some of the oil companies that are owned by sovereign nations such as Saudi Arabia, Venezuela, and Republic of Mexico.

So I would stipulate, Mr. Chairman, that while our major oil companies have caused this—at least British Petroleum is the cause of this particular problem—I will also stipulate that the gentlemen before us are a big part of the solution. If the President of the United States has got a better idea of how to solve this problem right now, he can pick up the phone and tell BP exactly what to do.

It is a Federal issue in terms of the mitigation plan, in terms of the cleanup plan. And if there is anybody from President Obama on down who really knows the solution, they can stop that oil from

spilling right now, by golly. All they have to do is pick up the phone and tell them what to do. And the fact that they are not is not simply because the laws of nature and the laws of physics don't respond to 30-second sound bytes. You have to know exactly what to do and you have got to have the engineering and technology to be able to do it.

America needs the energy that is beneath the Gulf of Mexico and in the Outer Continental Shelf. Thirty percent of our oil and gas is coming from the OCS right now, and 80 percent of that is coming from what are called deep rigs. We have a depletion rate of existing production in this country, Mr. Chairman, of 30 to 40 percent. That means that of the 8 million barrels of oil and gas that we are producing per day, of oil we are producing per day, next year we will only be able to produce 5½ to 6 million. You have to replace that energy.

Since we have drilled millions of wells on shore since 1896 or since the 1870s in Pennsylvania, the fact of the matter is that you are going to find significant oil reserves in the Continental United States that are going to be in the Outer Continental Shelf, so we need that energy.

Now, I agree with Chairman Waxman that having a 500-page document that is a cookie-cutter approach to what to do when you have a problem is not an answer. It is not an answer. You can't have a contingency plan that says cross your fingers and hope a blowout preventer works. And that was the contingency plan.

We haven't had a major accident in the OCS in 50 years. Everybody had decided that these blowout preventers were so good and so effective that all you had to do was push that magic button, if all else failed, and it would work. Well, they pushed the magic button on the BP rig and it didn't work.

So Chairman Waxman is right. We need more than a cookie-cutter contingency plan. But where I disagree, or I think I disagree, with Chairman Waxman and Chairman Markey is the gentlemen before us have the wherewithal and the expertise, and they certainly have the incentive to put that plan together.

Now, I don't know what the answers are. Maybe we need a full-time safety inspector on these rigs. Maybe we need a real-time data center somewhere that all the drilling information goes to a central data point where there is somebody in charge of safety that looks at it. It does appear that if people had been looking for the problem that we now know happened, the data was there to tell them what to do. But they weren't looking for that. This rig was 40 days behind schedule and millions of dollars over schedule, and there was a lot of pressure to finish the job. And there was nobody on that rig whose job was to make sure that they made the safe decision.

And so when you start making decision after decision after decision that is not in and of itself a bad decision, but, cumulatively, minimized safety, eventually you reach a critical mass and you have an accident that happened. So our job, Mr. Chairman, as the watch dogs for the American people is to, one, get the facts on the table; two listen to people who have possible solutions; three, if there is a Federal issue and a Federal role, let's do it. But when you take a patient to the emergency room, the solution is not normally to kill the patient. The solution is to stabilize the patient, de-

termine what needs to be done to save the patient, and then implement that strategy.

And I will stipulate, Mr. Chairman, America needs the energy beneath the Outer Continental Shelf off the coast of the United States of America. And the five men before us who represent five of largest privately owned oil companies in the world, while they are part of the problem, they are a big part of the solution.

Thank you, Mr. Chairman.

Mr. MARKEY. We thank the gentleman from Texas.

[The prepared statement of Mr. Barton follows:]

Statement of the Honorable Joe Barton
Hearing Entitled “Drilling Down on America’s Energy Future: Safety, Security and Clean
Energy”
Subcommittee on Energy and Environment
Committee on Energy and Commerce

Mr. Chairman, today we are 56 days into one of the worst environmental disasters ever faced by this country. For 56 days crude oil has gushed out of the destroyed wellhead once beneath the Deepwater Horizon drilling rig. Several lives were lost in the initial explosion, and, as the crisis has worsened, every day we’re seeing the effects on people and wildlife.

The initial cause or causes of this tragedy are under investigation and it is critical that we get the real facts about the causes. I think folks may know that I am a strong supporter of energy production, both onshore and offshore. But I know that the only way we can continue with drilling is if we are all sure that this production can be done safely, without harm to people or the environment. I believe firm oversight and safety are critical, and strongly support the investigation. When I was Chairman of the Energy and Commerce Committee, we conducted investigation and held hearings on the BP pipeline spill in Alaska’s North Slope and the Texas City refinery explosion which killed 15 workers in 2005. We need to take all the steps necessary to find out the causes of this incident and ensure that this never happens again. Once we establish what went wrong, we will take whatever legislative or regulatory measures are necessary to protect people and the environment.

Since April 20, a gargantuan effort has taken shape to stop the leak at the drilling site and protect the shoreline from experiencing catastrophic damage. In attempting to accomplish these objectives, the federal government has supervised and directed BP’s efforts, with consistently disappointing results. The leak has not been plugged, oil is destroying marshes, fishing fleets are

tied up in port, plumes of oil swell under the surface. We need answers not only about what went wrong, but about how we can do a better job at stopping the leak and cleaning up the spill.

Unfortunately, the Administration response to the spill has been disappointing. Instead of marshalling all the resources available, the Administration used the occasion to justify a new push for its economy-destroying global warming bill. Instead of calling for tougher safety requirements and inspections on offshore facilities, the Administration issued an arbitrary and ham-handed moratorium on all deepwater exploration, threatening to add thousands more lost jobs to our nation's 9.4 percent unemployment. Instead of looking for ways to support energy independence, the Administration is increasing our dependence on foreign oil.

Mr. Chairman, this was a human tragedy. Eleven lives were lost, and we're continuing to see an ecological disaster unfold that could last years. But anger and frustration do not solve problems. Likewise, the leak at the ocean floor will not be plugged by the words spoken in this room today. I support producing American energy from all sources, including the Gulf of Mexico, but also include solar, wind and anything else that makes sense. I look forward to the day when a broader variety of made-in-America energy is affordable and available. I want to see that day. But we must focus on the real problems: how to mitigate the spill, assist Gulf residents, and ensure a disaster like this never happens again.

With that, Mr. Chairman, I yield the balance of my time.

Mr. MARKEY. The chair now recognizes the chairman of the Oversight and Investigations Committee, the gentleman from Michigan Mr. Stupak.

OPENING STATEMENT OF HON. BART STUPAK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. STUPAK. Thank you, Mr. Chairman, and thank you to Mr. Waxman for holding this important hearing and for your leadership on the gulf oil spill.

On the Oversight and Investigation Subcommittee we have been investigating the actions of BP. This hearing is important because it provides the committee a chance to examine the practices of the other major oil companies. It could be said that BP is the one bad apple in the bunch. But, unfortunately, they appear to have plenty of company, Exxon and other oil companies are just as unprepared to respond to a major oil spill in the gulf as BP.

I have been examining the oil spill response plan of ExxonMobil, the largest oil company in the United States. This document, as Mr. Waxman showed us, is over 500 pages long. In many respects it is virtually indistinguishable from BP's response plan and response plans of the other major oil companies.

At this time, Mr. Chairman, I would ask unanimous consent that the response plans of major oil companies be made part of the record.

Mr. MARKEY. Without objection, so ordered.

[The information is available at <http://democrats.energycommerce.house.gov/index.php?q=hearing/hearing-on-drilling-down-on-america-s-energy-future-safety-security-and-clean-energy>.]

Mr. STUPAK. Thank you.

There is one major difference between ExxonMobil's plan and the other response plans, the section dealing with the media. BP, Shell, ConocoPhillips and Chevron have plans with short media relations sections. ExxonMobil has an entire 40-page appendix devoted to how to respond to the press.

The media section in the ExxonMobil plan directs public affairs personnel to, as you can see on display, maintain on-camera skill proficiency. It also explains that communications which convey care and concern for the situation and provide relevant, factual information are an integral part of the ExxonMobil's emergency response. It sets up a four-tiered system who can respond to media inquiries. The highest level, category D, dictates special treatment for questions about global warming and the Exxon Valdez.

The ExxonMobil plan contains 13 predrafted press releases for almost any occasion—give it a minute here—there is a fully drafted press release for an accident involving an ExxonMobil facility. If the injury occurs off site, there is a separate press release for that. Six of the stockpiled press releases are ready to express they deeply regret an outcome, while two or more press releases stand ready that ExxonMobil is deeply saddened.

The media section also contains a topic guide with talking points on over 65 issues. In five different places the plan directs the public affairs agents to say, "We comply with all applicable laws and regulations and apply reasonable standards where laws and regula-

tions do not exist.” But if the public affairs officer is asked about criminal charges, the plan instructs them to say, “We believe that there are no grounds for such charges. This was clearly an accident and we are working to respond to the immediate needs of the incident.”

That talking point is ready to go before a hypothetical incident even occurs, before ExxonMobil could have any idea whether it was actually an accident or if there are any grounds for criminal charges. In short, ExxonMobil had meticulously anticipated virtually every conversation that the company might need to have with the media in the days following an oil spill in the Gulf of Mexico.

My problem is that ExxonMobil has given far less attention to actually controlling the spill. While ExxonMobil has 40 pages on its media response strategy, its plans for resources protection is only 5 pages long and its plan for oil removal is just 9 pages long.

We have all seen the horrible images of pelicans and other wildlife coated in oil from the recent spill. ExxonMobil’s plan appears to be more concerned about public perception than wildlife protection, given the fact that their media plan is five times longer than the plan for protecting wildlife. And the canned, predrafted, deeply saddened press release rings hollow with the loss of the 11 people who died on the Deepwater Horizon rig.

ExxonMobil’s plan is a perfect metaphor for what is going wrong in the gulf today. The oil company response plans are great for public relations. They allow the oil company to do the same. We have this 500-page plan that shows they are prepared for any contingency, but these plans are virtually worthless when a spill actually occurs. And that is exactly the kind of misplaced priorities that have led to this disaster.

I yield back the balance of my time.

Mr. MARKEY. I thank the gentleman.

The chair now recognizes the ranking member of the Oversight and Investigation Subcommittee, the gentleman from Texas, Mr. Burgess.

OPENING STATEMENT OF HON. MICHAEL C. BURGESS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. BURGESS. I thank the chairman, and I do have to wonder what any of us expect to achieve with this hearing today. I know what the folks at home are saying and thinking. They want the flow of that well stopped, they want it stopped today. But it continues to leak and I don’t think anyone sitting here behind the dais or the witness table today is going to tell us how to turn that flow off today.

The majority did not call this hearing to talk about meaningful solutions, shutting off the flow in the gulf today, because this situation really presents itself too great an opportunity to give some Members the impetus for passing even more regulations. And likely there will also be the opportunity to increase energy taxes that Americans will pay into the foreseeable future under the guise of clean energy or climate change legislation.

The President’s chief of staff, Rahm Emanuel, spelled out the Democratic strategy for national energy policy best when he an-

nounced, “You never want to let a serious crisis go to waste,” and this is a serious crisis.

But in some ways, Mr. Chairman, this committee undermines its own credibility when it capitalizes on a tragedy—eleven lives were lost—when we capitalize on a tragedy to push forward the political agenda. I hope the majority members prove me wrong, and I hope that during this period the members of this committee will have a laser-like focus on trying to discern how we stop this leak, because that is really all that matters right now. That is all that matters to the fishermen, to the shrimpers and individuals whose families and livelihoods have been put on hold while this well continues to spill into the Gulf of Mexico. Not how much we spend in the future on solar and wind technology, both of which I support. Not how much we invest in nuclear technology, as clean as that may be. And certainly not how much this Congress intends to cripple the American economy even further than it already has with job-killing legislation.

We have had those debates, we are going to have those debates in the future. But today, today let’s keep the focus where it belongs. And it is pretty simple: Plug the well, stop the spill, clean the gulf.

So Mr. Chairman, I will respectfully request, I know you submitted a list of questions that you want the witnesses to answer, I will ask them to include in their opening remarks what ideas they have that will stop the leak, because that is really the question that we want answered today. If this hearing is not about stopping the leak, then why are we here? In the alternative, if the witnesses today really don’t have an answer to that question, then respectfully one might suggest this committee postpone the hearing until we have the witnesses in front of us who can answer that question.

Finally, I believe the majority is looking at drafting legislation in response to the spill, and I am concerned that this tragedy will leave Congress to do what it so often does and rush into writing legislation and with really no thought to what the consequences down the road will be.

A week ago the Committee on Oversight and Investigations had a subcommittee field hearing in Louisiana and we heard testimony—and it was pretty tough testimony—from two of the widows, two women who lost husbands on the Deepwater Horizon. Both widows stated unequivocally that they believed the current regulatory requirements for offshore drilling are more than sufficient to keep the men and women working on the offshore rigs safe.

The question then becomes whether the regulations are being properly enforced. Mrs. Natalie Rushto told our committee, “After all of the safety schools, meetings, fire drills and safety regulations, I just knew he was safe. We need to focus on making safety the most important priority; not to focus on making more safety regulations, but on ways to effectively implement and use the ones already in place.”

Mrs. Courtney Kemp, followed with her statement, “I am not here today to suggest that Congress implement more safety regulations, but rather to encourage you to hold companies accountable for safety regulations that are already in place and merely ne-

glected." And Ms. Kemp went on to say, Offshore drilling accounts for 75 to 80 percent of all of the jobs in her little town in Louisiana. She said that less offshore drilling would devastate the local economies of not only coastal Louisiana, but also the economies of our Gulf Coast communities who rely on offshore drilling and oil rig jobs.

Every job on the rig is responsible for four to five jobs on shore. When all of this is said and done, we need to find out why the agencies, why our Federal agencies, charged with enforcing safety regulations, appeared to feel as if that job was unimportant. We need to find out why they were asleep at the switch, and certainly we need to hold any party accountable at the Federal level that skirted safety measures. But first we must stop the leak.

Mr. Chairman, I yield back the balance of my time.

Mr. MARKEY. We thank the chairman.

Mr. MARKEY. The chair recognizes the chairman emeritus of the committee, the gentleman from Michigan, Mr. Dingell.

Mr. DINGELL. Mr. Chairman, I thank you, I commend you for holding this hearing. I have a splendid statement which I am sure everyone will enjoy reading, and in order to save time of the committee I ask unanimous consent to insert it into the record.

Mr. MARKEY. Without objection, so ordered.

The gentleman's time has expired.

[The prepared statement of Mr. Dingell follows:]

Statement of Representative John D. Dingell
June 15, 2010
House Committee on Energy and Commerce
Subcommittee on Energy and Environment
“Drilling Down on America’s Energy Future: Safety, Security and Clean Energy”

Mr. Chairman – thank you for holding this hearing today. In light of the BP spill, of which we are now on day 57, it is important that we hear from the oil companies as to whether or not their companies oil drilling operations are at risk like the Deepwater Horizon, how well poised they are to deal with a disaster like the one we currently face, and how invested the companies are in alternative energy sources.

A few years ago at a hearing I said “we cannot drill, dig and detonate our way to energy independence.” And despite calls over the past two years from our colleagues on the other side of the aisle to “drill, baby, drill,” I stand by my statement.

I am proud to say that since 2006, we have made good strides in our energy policy. Our efforts began with the Energy Independence and Security Act, which was largely dealt with in this very Committee – the efficiency standards for buildings and appliances of that legislation will remove more than 10 billion tons of carbon dioxide from the atmosphere. We continued with the American Recovery and Reinvestment Act and the

Administration's coordinated approach to deal with vehicle emissions. After many years of predictions that our dependence on foreign oil would only increase, we are seeing a change in that trajectory. The news will only be better if we see the American Clean Energy and Security Act signed into law.

However, the disaster in the Gulf sheds light on a terrible vulnerability and brings up more questions than answers. Are our environmental laws and regulations sufficient to deal with deepwater drilling? What about our safety standards? What do we do with a dysfunctional agency – MMS – which has blatant disregard for law?

I look forward to hearing from our witnesses today. I sincerely hope they are able to tell us they are better poised to prevent a disaster like the one in the Gulf, or at the very least better poised to deal with an incident should one take place.

Mr. MARKEY. The Chair recognizes the gentleman from Pennsylvania, Mr. Doyle.

OPENING STATEMENT OF HON. MICHAEL F. DOYLE, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF PENNSYLVANIA

Mr. DOYLE. Mr. Chairman, thank you for convening this hearing today to examine the impacts of our Nation's dependence on oil and the safety of drilling operations.

We are 57 days into this environmental and economic tragedy and the response effort is ongoing. We have learned that this gulf oil spill is the largest in U.S. history. New estimates show that, unlike BP's previous claim of 5,000 barrels leaking into the gulf each day, it is more likely like 40,000 barrels are leaking into the gulf each day. But no one really knows.

As such, President Obama has issued a moratorium on all 33 of the Deepwater drilling rigs in the Gulf of Mexico for 6 months, or until the completion of the Presidential Commission investigating the spill.

The National Oceanic and Atmospheric Administration has told us about the inability of the administration to handle an additional concurrent oil spill at this time. And as hurricane season begins with conditions ripe with potential for disastrous storms, I believe the administration is taking the proper steps to avoid an even more catastrophic event. In fact, recent events all over the country merit the need for a serious review of safety practices in the entire oil and gas industry.

Just this weekend, Chevron spilled 500 barrels of oil into a stream in Utah and in the last few weeks the Marcellus Shale has seen two different blowouts of natural gas wells, one in West Virginia and one in my home State of Pennsylvania. In the blowout in Pennsylvania the blowout preventer failed, allowing natural gas and fracking fluid to spew from the gushing well for over 16 hours, while the crew with the skills to cap it had to be flown in from Texas. Once they arrived, it only took them an hour to cap the well.

In West Virginia the gas explosion caused seven workers to be injured, and flames burned for days before it was brought under control.

Our growing energy demands require that we will continue to use natural resources under our land and sea. But there is simply no reason we should continue to extract our natural resources in a hegemonic and voracious style. The oil reservoirs in the Gulf of Mexico aren't going anywhere. The natural gas in the Marcellus Shale isn't going anywhere. I think it is time we take a step back and explore how to do this better and safer and more efficiently.

With that, Mr. Chairman, I yield back my time.

Mr. MARKEY. We thank the gentleman.

The chair recognizes the gentleman from Illinois, Mr. Shimkus.

Mr. SHIMKUS. Mr. Chairman, just a question. If we waive opening statements, will we get additional minutes for questions?

Mr. MARKEY. That is correct.

Mr. SHIMKUS. I waive my opening statement, Mr. Chairman.

Mr. MARKEY. The gentleman waives his opening statement. The chair recognizes the gentleman from Arizona, Mr. Shadegg.

Mr. SHADEGG. Mr. Chairman, I similarly will waive my opening statement.

Mr. MARKEY. The gentleman waives his opening statement. The chair recognizes the gentleman from Missouri, Mr. Blunt.

Mr. Sullivan.

Mr. SULLIVAN. I waive my opening statement too.

Mr. MARKEY. The chair recognizes the gentleman from Alabama, Mr. Griffith.

OPENING STATEMENT OF HON. PARKER GRIFFITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA

Mr. GRIFFITH. I would like to thank the chairman and ranking member for calling this important hearing today and the witnesses for taking time to come before our subcommittee to discuss drilling in our current and future energy portfolio.

Our number one priority must be stopping the flow of oil, that is certainly obvious. It is the job of this Congress to do whatever we can to aid the unified command in reaching this goal. This is a time of engineering in action, it is not a time to hastily put together knee-jerk energy policy that will jeopardize our energy and economic security in the future.

It is imperative that this committee remember the United States is part of the global energy economy, and therefore all policies discussed must take into consideration that we are only 4 percent of the world's population. If we enact policies of drive drilling out of U.S. waters, these companies will not cease to drill but we will cease to be able to ensure that oil and gas production is done in a safe and an environmentally friendly manner.

As we await the outcome of many investigations taking place, it is vital that we learn lessons from this incident to keep our workers and environment safe while continuing to produce our valuable oil and gas resources.

The moratorium put in place by this administration does not reflect the President's previous view, and this knee-jerk reaction to create a moratorium is simply a political expression, embryonic in nature, which has no place in a situation this serious.

There are still many questions to be answered about what happened on Deepwater Horizon; however, I think we must also question the Federal response. Government cannot facilitate a quick, effective response, and this event has been yet another example of that.

To echo some of my colleagues, I think we must take a long, hard look at the Federal response while also looking at the response of BP. This disjointed effort has not aided in helping to contain any of the spill.

Thank you. Thank you for coming today, and I look forward to your testimony. I yield back, Mr. Chairman.

Mr. MARKEY. The gentleman's time has expired.

The chair recognizes the gentleman from Washington State, Mr. Inslee.

OPENING STATEMENT OF HON. JAY INSLEE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. INSLEE. Thank you, Mr. Chair. Today's hearing is entitled "Drilling Down on America's Energy Future: Safety, Security, and Clean Energy," and we have the five leaders of this industry, and I'm very interested in what they are going to say in three respects.

One, I think we need to ask, Has the industry really shown accountability to make sure that the leaders are accountable for safety? So I will be interested in finding out how many people at British Petroleum have lost their jobs to date as a result of the most horrific environmental catastrophe in American history. I will be interested in that number.

Number two, we will be interested in the numbers from the leaders of the industry, what they are investing in an effort to develop technologies that can reduce the risk of offshore drilling. The numbers we have seen in our questions to the witnesses so far are really quite astounding in how small they are. They all are less than one-tenth of 1 percent of their profits have been invested in technology to try to reduce the risk of this type of disaster. That is less than 1 one-hundredth of a percent of their gross revenues. It is stunning to me if that is the fact, but we'd like to ask the leaders, if that is the case, why they have exposed the country to this type of risk with such reduced investment.

And third, it is appropriate to ask about the investment of the industry in clean energy. And the reason is that—and all of the leaders today will admit this—every single oil well we have ever drilled is an invisible oil spill, because every single well we drill results in putting carbon dioxide in the air, which goes into the atmosphere, which goes into solution in the oceans, and have made the oceans 30 percent more acidic than they are today. They will be so acidic by the time my grandchild leaves the planet, we wouldn't have coral reefs anywhere on the planet. Every single oil well is an oil spill.

So we would be interested in knowing what these leaders are bringing to the table in an effort to reduce our dependence on fossil fuels, in an effort to find clean energy to prevent this kind of environmental disaster. Unfortunately, it won't be the numbers we are looking for. Hopefully, we will inspire some changes. Thank you.

Mr. MARKEY. The gentleman's time has expired.

The chair recognizes the gentleman from Kentucky, Mr. Whitfield.

Mr. WHITFIELD. I waive.

Mr. MARKEY. The chair recognizes the chairman from Texas, Mr. Hall.

Mr. HALL. Mr. Chairman, I can look back a lot better than I can look forward. And when I looked back, I looked at two entities that ought to be looked to. There have been suggestions that the Federal Government ought to play a more prominent role in this disaster, such as taking over the process of capping the well.

Well, there are two things you'd look at there. One is the financial statements of the two entities: The United States of America or British Petroleum. And I find British Petroleum in a lot better shape than the United States of America.

It is theirs. I think that initially we should have turned it over to the British to cap their well, and after they cap their well, we'll tell them how much they owe everybody else. I don't think this President knows any more about capping a well or going out and counting those birds or picking up little parts of the waste than they do about the Olympics. And I resent the fact he's trying to blame some of this on Bush. When Bush, on 9/11—I don't recollect him ever accusing Clinton.

I yield back my time.

Mr. MARKEY. The gentleman's time has expired.

[The prepared statement of Mr. Hall follows:]

**Opening Statement of Rep. Ralph M. Hall
Committee on Energy and Commerce
Subcommittee on Energy and Environment
*Hearing: "Drilling Down on America's Energy Future:
Safety, Security and Clean Energy"*
June 15, 2010**

Mr. Chairman, thank you for holding this hearing today. In the several weeks since the April 20th explosion took the lives of 11 people on the rig Deepwater Horizon, our nation is still searching for answers on the causes of the explosion and is frustrated by the lack of progress in fully plugging the well and cleaning up the spill. I would like to first offer my condolences to the families of those lost in this horrible incident.

Second, it is worth noting that BP is ultimately responsible for this oil spill. They are responsible for repairing the damaged well, and as the owner of the mineral rights to drill for oil in the Mississippi Canyon Block 252, BP is also accountable for the clean up costs. To date, BP has paid out over \$63 million in claims and will be paying millions more moving forward. There have been suggestions that the Federal government should play a more prominent role in this disaster, such as taking over the process of capping the well. While I am frustrated with the lack of progress in efforts to contain this spill, I am not sure the government has any more expertise in this area than the oil company. From the beginning of any incident, the company responsible should be responsible for fixing their equipment and

working with the appropriate authorities to clean up the damage caused by it.

I am very troubled about the way our administration has handled the situation. Imposing a 6- month drilling moratorium, including a halt in consideration of shallow water drilling in the Arctic, is only tying one hand behind our back in the effort to move forward. It does not help fix the leak, it does not help in the cleanup effort - it only amplifies our dependence on foreign oil. From what I understand the President still hasn't even met with BP to work towards a real solution. This is unacceptable for someone that is supposed to be in charge.

There are many in this Administration who argue that we should end offshore drilling altogether. This proposal, of course, will not solve the problem of oil spills, as it only serves to shift drilling to other countries along with thousands of U.S. jobs. Rather, it is far more productive for the Federal Government to advance research and development to help industry not only drill responsibly, but also more effectively clean the water and land after spills. The Outer Continental Shelf, or OCS, is one of the nation's greatest resources for energy. The volume of oil coming up from the sea floor illustrates that this country still has valuable, domestic resources as long as we have the technological feasibility to tap into them in a responsible manner. I have long believed that the OCS must be a part of our national energy policy, which is why I have been a supporter of oil and gas development in deepwater environments. My primary goal in advancing the Ultra-

deepwater and Unconventional Resource program into law is to encourage the development of technologies required to reach these vast reserves in a way that prevents the loss of life and economic and environmental damage we have witnessed in the last couple of months. It is much more desirable to prevent a spill than to deal with the aftermath of one..

Beyond research into better drilling technologies, we should also invest in research to ensure that we have state of the art tools to clean up the damage from a spill as quickly as possible. It is clear from the current response that the resources being employed are decades-old technologies. While there have been many improvements in these technologies since their inception, limitations still exist.

There have been thousands of suggestions and proposals given to BP and the Federal government on how to clean up this spill. Of those thousands, are any worth deploying? Are there new technologies that can be used for this spill? If so, why are the agencies involved in cleaning up oil spills not aware that they exist? What technologies have been developed from the millions of dollars these Federal agencies have spent on research and development in the last 20 years? How do we know what research needs exist if we do not even know what technologies are already out there? I hope some of our panelists will be able to answer these questions.

I yield back my time.

Mr. MARKEY. The chair recognizes the gentlelady from California, Ms. Matsui.

OPENING STATEMENT OF HON. DORIS O. MATSUI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Ms. MATSUI. Thank you, Mr. Chairman, for calling today's hearing. I would also like to thank the witnesses for appearing before us today. The families of those who lost their lives or had their livelihoods severely impacted by this disaster of unprecedented proportions deserve our unconditional support.

Now, as we continue to seek answers from BP and others about the cause of the accident, we must hold those responsible accountable. The first priority of BP must be to stop the leak from continuing to spread and ensure the cleanup efforts are carried out to protect our costal communities and the families whose livelihoods depend on it. And it is incumbent on all of us to make certain that this never happens again.

The unfortunate part about this, Mr. Chairman, is that we have been here before. I remember more than 40 years ago when Union Oil's platform A exploded off the coast of my home State. My concern is that today could be like 1969 all over again and that we are setting ourselves up for another 4 decades of more of the same.

So the question I have today is: What has changed? What can the oil companies tell us today to assure us that this story is not simply repeating itself? Because what the gulf region and the American people do not want to hear now are the same excuses that were employed decades ago about oil being our largest and most reliable energy option.

In fact, the BP oil spill underscores the need to look beyond oil production and consumption and invest in cleaner alternatives that would create jobs and save our environment from harm. If I learned anything from this disaster, it is that we must continue to explore clean-tech alternatives to big oil. Today's hearing is a step in that direction.

Thank you, Mr. Chairman, and I yield back the balance of my time.

Mr. MARKEY. Great. The gentlelady's time has expired,.

The chair recognizes the gentlelady from California, Mrs. Bono Mack.

OPENING STATEMENT OF HON. MARY BONO MACK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mrs. BONO MACK. Thank you, Mr. Chairman. I thank you for yielding this time and I welcome the opportunity to hear from the witnesses today about our energy security and the ongoing oil spill operations in the gulf.

The companies represented by the witnesses at the table are at the forefront of energy resources development and growth, and your insights will be very important for how to ensure a spill of the current magnitude never happens again.

As we just heard from my other colleague from California, many of us in California and Southern California certainly still recall the oil spill in Santa Barbara from 1969.

To get a sense of the magnitude of what we are facing, administration scientists, as of yesterday, were estimating that BP's well could be spewing as much as four times that oil every day as we spilled during the entire Santa Barbara disaster. American lives have already been tragically lost and we have yet to fully understand the environmental and economic impact, so there is significant work ahead.

Our priority today and for the days ahead, as we have all said, must be to completely stop the leak. I hope our witnesses are willing to offer whatever assistance they can to ensure that this is our focus. I'm fairly certain it is what the American people want.

As we sit here today, nearly 2 months have passed since the original Deepwater Horizon explosion. What have we seen in the interim? A number of charges against BP that still deserve answers; a new government committee set up across agencies that are slow and crucial in critical response decision making; and, most importantly, the livelihoods of so many gulf residents are being severely threatened.

I will be interested to learn about the technologies that these companies have invested in to help protect against any future spill.

Mr. Chairman, we as a Nation ought to be devoting all of our resources to this disaster as the echoes of the Santa Barbara spill still haunt us decades later and as years of failed energy policy do as well. How this crisis is managed or mismanaged matters. We do not know the long-term consequences yet from the spill, but the devastation to the environment and the economy will be long-lasting and have national implications.

I appreciate our witnesses being here and yield back the balance of my time. Thank you.

Mr. MARKEY. Thank the gentlelady.

The chair recognizes the gentleman from California, Mr. McNerney.

OPENING STATEMENT OF HON. JERRY MCNERNEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. MCNERNEY. Thank you, Mr. Chairman, for today's hearing. I want to welcome the panelists here this morning. The explosion of the Deepwater Horizon and resulting oil gush is a tragedy with terrible human consequences. Our thoughts and prayers are with the families of the victims and hardworking Americans whose livelihoods and ways of life are threatened.

Americans are shocked and saddened by what occurred, but their outrage is because there is no real plan to respond to a crisis of this magnitude. The technology that was supposed to fail safe, failed badly. How could companies like BP have invested so many millions of dollars of technology for deepwater drilling, but failed to develop effective technologies to prevent this kind of gush? I want to know today what steps the industry is taking to ensure that the technologies designed to be fail-safe work as promised and

what investments the industry is making in technologies that would allow for a far more effective response to the disaster.

However, the real solution is to deliberately reduce our consumption of petroleum fuels so the demand for oil is technically manageable. I believe that this can be done in a way that improves our national economy. And I want to know what the executives sitting here in front of me today are going to do to achieve this goal.

Thank you, Mr. Chairman. I yield back.

Mr. MARKEY. I thank the gentleman.

The chair recognizes the gentleman from Florida, Mr. Stearns.

OPENING STATEMENT OF HON. CLIFF STEARNS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. STEARNS. Good morning. Thank you, Mr. Chairman, and thank you for having this hearing, together with Ranking Member Upton.

The title of the hearing is "Drilling Down on America's Energy Future: Safety, curity, and Clean Energy." I'm not sure the title really is appropriate as well as listening to some of these opening statements. The bottom line is all of us are frustrated here in Congress as well as, obviously, the Gulf Coast residents. We don't understand why BP didn't act more quickly.

I asked CEO Lamar McKay the question of how many barrels are coming out per day. He said 5,000. Then I read to him from his own report that he could handle up to 300,000 barrels a day, 10 miles off the shore. So the question to him is, Why can't you handle 5,000?

Well, obviously the 5,000 wasn't correct, at least many of us don't think it was correct. We now have an oil spill that is seven times the Exxon Valdez, and yet there is no end in sight at this point.

So the purpose of this hearing is to ask these executives—these are the people who are making the top salaries in the world. To get to their spot they have unusual acumen, foresight, energy business awareness, and obviously have a lot of corporate political savvy to get where they are. They wouldn't be here today, Mr. Chairman.

So the question is? Can each one of you in your heart of hearts say to us that America is protected with all the oil rigs you have out there? We have almost 3,800 in the gulf. Can you tell us today that we will be safe, that America will be safe? And do you have backup, worst-case scenarios.

Mr. McKay said he did, but he didn't. He didn't even tell us the right 5,000 barrels a day. Obviously, it was not that. So we need to hear from you, under oath, that you can in a worst-case scenario protect America's shores.

Thank you, Mr. Chairman.

Mr. MARKEY. The gentleman's time has expired.

The chair recognizes the gentleman from Texas, Mr. Green.

OPENING STATEMENT OF HON. GENE GREEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. GREEN. Thank you, Mr. Chairman, for holding the hearing, and I want to welcome our panelists today.

States along the Gulf Coast are in the midst of dealing with this tragedy, and my thoughts and prayers go out to the families and the communities affected by this accident. For those of us who represent an energy-producing area, it is like a loss in the family, and I think we need to remember that.

While we anxiously await a positive outcome on efforts to contain the spill, we also are beginning the process of thoroughly evaluating the answers to many questions we have on what went wrong and how to hold responsible parties accountable.

As we consider how to approach these issues, legislatively, it is critical that we allow the facts that come to light and allow for thoughtful deliberation, for making permanent, statutory, sweeping changes that would end up taking us further from our goals of safe, responsible development of our natural resources. Quickly moving forward with legislative proposals would have profound effects, and possibly negative consequences, for America's production potential is not the path that Congress should take to rush to do anything just to be doing something.

While I understand there is public leering at deepwater production, I want to note there is still a majority of American people who support Outer Continental Shelf drilling. I encourage the administration to quickly develop and implement any necessary changes in the safety and procedural standards for deepwater drilling—and shallow water, by the way—because of the loss of jobs and domestic production. We will see if this full 6-month deepwater drilling moratorium is the last thing, if it continues; that is the last thing our recovering economy needs, or our Nation's energy needs. It is also estimated 120,000 jobs could be lost as a result of this moratorium.

Finally, I look forward to hearing what our panel plans to do to restore America's public trust in the oil and gas industry. There is a great record in the Gulf of Mexico, it has been said. The last time I can remember was the well in the Gulf of Mexico, actually in the Bay of Campeche in 1979. We have a good record. We need to find out why it didn't work and almost everything went wrong with Horizon, and why it is working in lots of other wells that have been drilled.

Our country needs a strong, steady, domestic supply of oil and gas, and natural gas. And as we transition alternative energy supplies, let's not forget that, as we legislate this response in the accident. I look forward to your testimony, again.

Mr. Chairman, I yield back the balance of my time.

Mr. MARKEY. I thank the gentleman.

The chair recognizes the gentleman from Missouri, Mr. Blunt.

OPENING STATEMENT OF HON. ROY BLUNT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. BLUNT. Thank you, Mr. Chairman, and thank you for holding this hearing. I have a prepared statement I will put in the record.

Let me summarize that a little bit, first, by saying that I am glad to have these five individuals here who, as Mr. Barton said, have so much at stake and so much potential to be part of this solution.

I am hopeful that we can use this hearing today to understand better why our government and British Petroleum could have possibly been so poorly prepared for this disaster. Certainly people in the fishing industry, the tourism industry want answers to this problem; and there is plenty of blame to go around. I don't think the administration or the government agency heads have done everything they should have done, from being prepared, to prevention, to the response.

Incredibly, 7 weeks after the Deepwater Horizon explosion, we are still lacking resources and containment. The booms, the skimmers, the things that should have been readily available are still not, apparently, there in the ways we need them to go. Weeks ago—and weeks now—I introduced legislation that would require ready access to the things necessary to contain a problem if a problem developed in the Gulf.

We are learning more and more every day about the failings of both the industry and the government and the regulators leading up to the incident. However, our main focus today and in the next few weeks needs to be to do what we can to stop this problem and then to study the problem and see that it doesn't occur again.

I am convinced that we can protect both our environment and our economy. As we continue in our pursuit of more independence from foreign oil, Congress and the administration should work to ensure that we can produce domestic oil and gas in an environmentally sound manner.

I am afraid that the moratorium that the administration announced against the wishes of Secretary Salazar's own technical advisers will cost thousands of jobs and ultimately harm consumers.

It is obvious we need to hear from the panelists today. I am grateful they are here. It is also obvious that members of the this committee want to speak and are speaking and are concerned that this not happen again and we be better prepared to take advantage of our resources not become the victim of our resources.

I yield back.

[The prepared statement of Mr. Blunt follows:]

Congressman Roy Blunt
MO-07

Mr. Chairman,

Thank you for holding today's hearing on one of the most important challenges facing the country today. I'm hopeful that we can use today's hearing to better understand why our government and British Petroleum could have possibly been so poorly-prepared for this disaster.

People in my district, my state, and throughout America want answers to these questions. Certainly the citizens who live around the Gulf whose livelihoods depend on the fishing and tourism industries want answers. And the reason all of today's witnesses are here is because while today's crisis directly involves BP, it's up to all of us in this room to make sure that nothing like this ever happens again.

There's a lot of blame to go around on this disaster. I, for one, believe that this Administration and its government agency heads have failed nearly every step of the way -- from preparedness to prevention to response. Incredibly, over seven weeks after the Deepwater Horizon explosion, we are still lacking in resources for containment, and the government's lack of contingency planning for this kind of catastrophe should be a wakeup call that better preparations are needed.

We need to learn the right lessons from this disaster to ensure that we respond appropriately. Weeks ago, I introduced legislation which would better prepare us in the future, doesn't turn over production in the Gulf to big oil, and still holds private companies responsible the cleanup cost.

We are learning more and more every day the failings of both industry and government regulators leading up to the incident. However, our main task still remains to be the stopping of the leak and focusing on cleanup efforts. Action and solutions for responding to the crisis at hand should be our primary focus. Obviously it's important we find out what went wrong, but instead of just placing blame, the federal government should be pulling out all the stops. It's been reported that our foreign allies have offered to help accelerate the cleanup, however the Jones Act is hampering a quicker response. But for some reason the Administration hasn't waived the Jones Act to allow that to occur, a law that was temporarily waived in the response to Hurricane Katrina. And the back and forth discussion between BP and EPA on the use of dispersant further exposed the incompetence in the Administration's ability to clean up this spill as did the foot dragging to allow the construction of sand berms. We should also be asking what else the federal government can do to aid and not hinder cleanup efforts, such as the acceleration of permitting for additional sand berms, increasing the supply of containment boom, and accepting foreign assistance where appropriate. I'm interested in hearing from you, and particularly from BP, what kinds of additional resources you believe the government needs to provide at this critical time.

I think this Committee needs to hear today what the private sector is doing and how the federal government can help to clean up after this incident and to prevent future occurrences. And I want to hear what BP is doing to ensure that its payments to the affected individuals and communities are both more efficient and more timely and offset the loss caused by this disaster.

Obviously all of this discussion is within the context of our national energy policy. I am convinced we can protect both our environment and our economy. As we continue in our pursuit of more independence from foreign oil, Congress and the Administration should work to ensure that we can produce domestic oil and gas in an environmentally sound manner. I am afraid that the Administration's moratorium, which was announced against the wishes of Secretary Salazar's own technical advisors, will cost thousands of jobs and ultimately harm consumers through reduced supply and increased costs, and inflicts further harm on our economy. But that's obviously why we need to hear from you today about the kinds of steps that energy explorers and producers are taking to ensure that American energy can be found safely and efficiently in the future.

Mr. MARKEY. I thank the gentleman.

The chair recognizes the gentlewoman from California, Mrs. Capps.

OPENING STATEMENT OF HON. LOIS CAPPs, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mrs. CAPPs. Thank you, Mr. Chairman. I look forward to the testimony of our witnesses today.

BP's Deepwater Horizon oil spill in the Gulf is an environmental disaster that has already created and still threatens profound human and economic harm. We all must do everything possible to clean up the damage from this incident and prevent future ones like it.

This morning, our subcommittee needs to hear from BP, how this spill occurred and how it is going to make the people of the Gulf whole. And, more broadly, we need to hear from the oil companies in general about how they are going to prevent spills in the future.

Unfortunately, we can't stop drilling overnight; and these companies have the responsibility to do everything in their power to prevent future tragedies. Having seen the 1969 oil spill firsthand, I can tell you that spill response technology has hardly advanced in the past 40 years.

Finally, we need to hear from each witness and their companies whether or not they are going to play a constructive role in transitioning our economy away from drilling and onto clean energy sources. The record to date is not impressive. They need to transition away from fossil fuels for the sake of our national security, our economy, and the environment. This could not be more apparent than it is today.

Passing comprehensive energy and climate legislation is just what America needs to do to help grow our economy and to create jobs. Taxpayers don't need status quo energy policies that send billions overseas to hostile governments. We need a safer, a cleaner, and a more economical approach to energy development, one that shifts us away from oil eventually and toward renewable sources that can't destroy our coast lines.

Every day we delay, our economy grows weaker, our enemies grows stronger, and the planet becomes more polluted. It is time for real solutions that protect rather than endanger our coastal communities, our livelihoods, our way of life.

I hope we can enact bipartisan climate and energy legislation this year, Mr. Chairman. I have pledged to work with you to achieve this very important goal.

Mr. MARKEY. The gentlewoman's time has expired.

The chair recognizes the gentleman from Pennsylvania, Mr. Pitts.

OPENING STATEMENT OF HON. JOSEPH R. PITTS, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF PENNSYLVANIA

Mr. PITTS. Thank you, Mr. Chairman. Thank you for holding this hearing on America's energy future.

The BP oil spill is a tragic event in the history of our country, not only in lives that have been lost but an unknown amount of

oil has been leaked into the ocean, causing horrible effects, some of which we know now, some of which will take years to discover.

First and foremost, the leakage of oil must be stopped. I think we all know this, but it bears repeating, and I hope our witnesses will tell us what they think must be done to stop the leak.

Once this is done, it is imperative that we thoroughly understand what happened aboard Deepwater Horizon before, during, and after the explosion. We must know what caused this horrific event so that it never happens again.

In the wake of this event, questions have not only arisen regarding the cause of the explosion and the leak but also regarding the appropriateness of response from BP and the administration. I find it unfathomable that the President is just now meeting with top BP executives.

In addition, it seems to me that the entire Federal response has been not only disjointed but confusing and frustrating for those on the ground trying to bring relief. The moratorium announced last week is just another example of poor judgment without regard to the economic livelihood of the Gulf Coast region and millions of Americans who buy gas every day for their vehicles.

As I have said, this is a tragic event. We need to make sure due diligence is done in investigating the causes and the appropriateness of the response in the aftermath. However, we need to make sure the response of this body and the administration is prudent, one that still encourages our country's energy security and independence.

I look forward to hearing from our witnesses today, and I yield back.

Mr. MARKEY. The gentleman's time has expired.

The chair recognizes the gentlewoman from California, Ms. Harman.

OPENING STATEMENT OF HON. JANE HARMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Ms. HARMAN. Thank you, Mr. Chairman, and welcome to our witnesses.

I have long argued and, so have others, that we must move away from dependence on foreign oil. We know the national security pitfalls of that dependence. We see that played out every single day in what's going on in the Middle East.

But we also now clearly see that there are environmental and economic pitfalls with our ongoing dependence on domestic oil. Many of the Californians on this panel, including me, staunchly opposed drilling offshore California, and I want to applaud our President for making clear that that will not happen.

But it is also clear, as our witnesses know, that California has an addiction to one driver per car and that there are, therefore, many refineries located throughout the State, four or five in my district alone. El Segundo, for example, is named for the second Chevron refinery in the State. And so all of you sitting here looking at us are saying, well, hey, if you are not fixing this problem, why are you blaming it all on us?

I just want to point out the obvious that some other members have also addressed, which is that all the companies before us

have, in 2009, yearly profits amounting to more than \$64 billion. You paid \$37 billion in dividends to your shareholders, you invested more than \$9.5 billion in exploration, but you invested far less in renewable and alternative energy.

You are energy companies, and so my urging would be why not invest in energy products and energy technologies that are far safer, that will wean us from our dependence on oil, that will keep your profit level up for your shareholders but that obviously will make America safer.

Finally, let me just mention that our constituents are very smart. One of them approached me in San Pedro, California, the other day and said, why don't we require energy companies that are drilling, especially deep wells, to drill a relief well alongside the original well? If it was drilled at the same time, it would be there if a catastrophe happened.

Thank you, Mr. Chairman.

Mr. MARKEY. We thank the gentlelady.

The chair recognizes the gentleman from Louisiana, Mr. Scalise.

OPENING STATEMENT OF HON. STEVE SCALISE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA

Mr. SCALISE. Thank you, Mr. Chairman.

I spent last Friday on Grand Isle assessing the damage and talking to local leaders who say they are still spending more time fighting the Federal Government and BP than they are fighting the oil. That is unacceptable yet indicative of a serious lack of leadership and coordination coming from BP and the Obama administration.

First and foremost, our focus, BP's focus, and the President's focus needs to be on plugging the well and using every resource available to protect our fragile marsh and seafood beds from being further inundated by the oil. BP, as the responsible party, needs to be held accountable; and I intend to do everything in my power to make sure that BP pays for the full cost of this disaster.

But in order to improve the inadequate Federal response, we need a clear chain of command that holds people accountable. The Oil Pollution Act of 1990 states the President shall ensure immediate and effective removal of a discharge. On numerous occasions the President has said that from day one he has been on the ground and in charge, but if that's the case, where was the President when State and local officials waited nearly a month for approval on a plan to construct sand berms to protect our valuable marsh and prevent at least a dozen pelicans from dying? And why do boats continue to sit idle at the docks when our fishermen are constantly having to seek BP's approval to get boom or clean up our beaches?

The delay of the sand berm plan is a prime example of the incompetent response to this disaster. While the administration drags their feet in Washington, millions of barrels of oil invade our wetlands, killing scores of wildlife and devastating Louisiana's fisheries.

Quick action and leadership could have effectively limited the scope of this disaster. Instead, the President responded by making excuses and shifting blame. Frankly, I and people throughout Lou-

isiana have had enough and are sick and tired of the excuses that we continue to be given by the President and BP.

Instead of leading like the Commander in Chief, the President continues to act like a spectator in the stands. To add insult to injury, the President has now imposed a 6-month ban on deepwater drilling. Make no mistake, implementing this ban is like taking a jackhammer to the bedrock of the Louisiana economy. This devastating ban will cost my State alone at least 40,000 jobs and will leave our Nation more dependent on Middle Eastern oils, countries that don't like us.

We must figure out what went wrong to prevent this type of disaster from happening again in the future, but the President is now exploiting our disaster as a political opportunity to advance his radical agenda that will kill more American jobs. We need answers and we need leadership by the President. Unfortunately, we have neither, and Louisiana's people and wildlife are paying the price.

Thank you, Mr. Chairman. I yield back.

Mr. MARKEY. The gentleman's time has expired.

The chair recognizes the gentlelady from Wisconsin, Ms. Baldwin.

OPENING STATEMENT OF HON. TAMMY BALDWIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Ms. BALDWIN. Thank you, Mr. Chairman, and thank you for holding this hearing today and calling this panel of witnesses before us.

The catastrophe in the Gulf has shed new light on the operations of the oil industry, the safety and security measures that they have in place, the disaster plans they maintain, and their efforts to move us away from our dependence upon oil and towards developing and promoting the use of renewable energy sources.

As has been noted, the companies that are represented before us today have produced record profits in recent years. Last year's aggregate profits for the five companies represented here today amount to \$64 billion. Unfortunately, what appears to be missing amongst the dollar signs is corporate responsibility, an obligation to operate in an environmentally and socially responsible manner, to provide safe working environments, to be good neighbors, and to reduce environment impacts.

Generally, companies claim that stewardship is part of their philosophy. I think each of the companies represented here today have made that representation. Yet what we are beginning to find as this committee and its other subcommittees investigate this disaster is that, rather than corporate responsibility, we may have before us a culture of corporate irresponsibility.

We know the results of letting companies operate under weak regulation. They begin to believe that they are above the law, they ignore warning signs, they shortcut proper procedures, they fail to properly plan for a disaster, and they put profits above all else.

You know a lot of what I am observing in this sector could just as well have been said about what we saw on Wall Street with the financial collapse in the last couple of years.

Mr. Chairman, government and industry all have a role to play in preventing future environmental and economic disasters; and, as lawmakers, we have a responsibility to our constituents, our Nation, to those who have lost jobs, pensions and health care, those who have lost their lives, to put an end to this recklessness and to hold bad actors accountable.

I look forward to hearing from our witnesses about the role they see their companies and the government playing in ensuring future disasters are prevented.

I yield back the balance of my time.

Mr. MARKEY. I thank the gentlelady.

The chair recognizes the gentleman from Arkansas, Mr. Ross.

OPENING STATEMENT OF HON. MIKE ROSS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARKANSAS

Mr. ROSS. Thank you, Mr. Chairman, for holding today's hearing to discuss the safety and security of current offshore drilling practices and the future of energy production in our Nation. In the wake of the worst oil spill in our Nation's history, we must now learn from this disaster and reevaluate our operating methods and examine how oil will be a part of America's future energy policy.

As oil prices and oil company profits have increased dramatically over the last decade, so has our Nation's dependence on foreign oil, with the U.S. importing approximately 52 percent of the oil it consumed last year. While I believe that our policies must be broad enough to create energy from a variety of domestic sources, including domestic oil and natural gas, I also recognize the importance of thoughtful investments in biofuels, nuclear, hydropower, wind, solar, and clean coal technology.

On day 57 of this disaster, with no end in sight, I am hopeful that the five companies testifying today can inform us of what went wrong, how this tragedy could have been prevented, and how the American people can have assurance that this will never happen again. I believe the administration and our government must do more to hold these companies accountable for their drilling practices and ensure the most advanced technologies and safety procedures are in place.

Once again, Mr. Chairman, thank you for holding this hearing; and I look forward to today's discussion.

Mr. MARKEY. We thank the gentleman.

The chair recognizes the gentleman from Vermont, Mr. Welch.

OPENING STATEMENT OF HON. PETER WELCH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VERMONT

Mr. WELCH. It is absolutely outrageous that we are here today. What happened in the Gulf was something that BP assured us would never, ever happen. That it did happen, in fact, was foreseeable and inevitable. And why was that? Because, at every turn, reckless disregard of safety procedures, corner cutting, and decisions that were made for money, not safety.

Mr. Chairman, I want to take this opportunity to address the current crisis. As BP debates whether to issue a second quarter dividend on their annual \$10 billion dividend, we have people in

the Gulf Coast who need compensation. Responsible companies pay their obligations. Then they pay dividends.

Many in Congress have joined me in my call on BP to direct dividend funds to an escrow account to be available to deal with the heartache and the destruction of livelihoods in the Gulf Coast. BP has affirmed its intention to make good on its obligations. Now we ask that BP take financial steps consistent with its assurances.

President Obama and 54 Members of the U.S. Senate have called for the establishment of an independently administered \$20 billion escrow fund that would be available to cover cleanup costs. Mr. McKay, I further call on BP to deposit dividend funds into this escrow account so that the citizens of the Gulf and the taxpayers of this country can be assured that your company will meet its obligations.

I yield back the balance of my time.

Mr. MARKEY. We thank the gentleman.

The chair recognizes the gentleman from Utah, Mr. Matheson.

**OPENING STATEMENT OF HON. JIM MATHESON, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF UTAH**

Mr. MATHESON. Thank you, Mr. Chairman, for holding this hearing.

I know that for each witness here your testimony highlights the way in which your company does business and how, and also we are going to hear from BP how it conducted itself leading up to the Deepwater Horizon explosion on April 20. You each will discuss your safety record and lessons learned from past disasters.

I think it is fair to say that none of your companies are immune from criticism, and accidents can strike at any place at any time, despite the safety measures that you will be touting today. As has been mentioned already, on Friday night, a Chevron pipeline began leaking in Salt Lake City and before being shut off early Saturday morning had already leaked somewhere around 33,000 gallons of oil down Red Butte Creek in northern Salt Lake City, which leads into the Jordan River which empties into the Great Salt Lake.

The Great Salt Lake is one of the most important estuaries for migrating birds in the Northwest. Fortunately, current information indicates that oil has not hit the Great Salt Lake. Further, it is fortunate that the drinking water supply is protected; and, by most accounts, the oil has been contained.

Now while 33,000 gallons is a pittance when compared to the magnitude of the spill in the Gulf and the impact on my city's economy will not be anywhere near what it is for the Gulf Coast residents, it further highlights for me the importance of Federal Government oversight of our energy infrastructure.

This particular Chevron pipeline was last inspected in 2008. We need to find out what the results were of that inspection and if anything in that inspection gave any indication of the potential of this problem that occurred this past weekend.

Right now, the purported cause of this spill is that a branch fell during a heavy windstorm, created an electric arc, which hit a metal fence post that was driven into the ground just inches from the pipeline.

It raises some questions. Why was the fence post within inches of the pipeline? When the electricity arced through that fence post, it burned a hole in the pipeline.

That is the latest explanation of what happened. We need to get answers to that.

The last thing we needed answers to is that, apparently, the monitoring equipment on the pipeline failed to indicate there was a leak and the first time Chevron was aware of the leak was when the Salt Lake City Fire Department called them the next day.

So we need to find out, number one, what was the result of the inspection in 2008; number two, why was a fence post drilled within inches of the pipeline; number three, why did the monitoring equipment fail in terms of why the leak happened? I am kind of working the Department of Transportation, the EPA in looking at these issues to find out why this happened and, lastly, how we define what clean is in terms of the cleanup.

I would acknowledge Chevron has taken responsibility. Chevron has indicated it will pay for the cleanup in Salt Lake. I appreciate that aggressive position they have taken to try to reach out to the residents of Salt Lake City.

Mr. Chairman, I am glad you bear with me. I know this hearing is more about the BP situation in the Gulf, but I thought the incident of the past weekend was worth mentioning in this hearing to show that issues about energy, infrastructure, and safety can touch anywhere along the supply chain. It is important we keep that in mind.

I will yield back.

Mr. MARKEY. We thank the gentleman.

The chair recognizes the gentleman from North Carolina, Mr. Butterfield.

OPENING STATEMENT OF HON. G.K. BUTTERFIELD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. BUTTERFIELD. Thank you very much, Mr. Chairman.

I think we are all saying the same thing. You should have done more to prevent this unthinkable disaster. Even though some may suggest that my home State of North Carolina is not in harm's way, the fact is that we may be. We are not only angry about this spill but we are scared to death that our coastal area will be affected.

Over the past 30 years, the oil industry has used some of the world's most advanced technologies to drill in deeper waters. The broad ingenuity that allowed them to drill miles under the ocean's floor has outpaced commitment to safety, and that is unacceptable.

BP ignored a very simple rule. If you can't plug the hole, don't drill the well.

What concerns me, Mr. Chairman, is whether BP's mistakes are unique to them or are indicative of industry-wide practices. Regardless, we must now ensure that adequate safety practices and clean-up plans are firmly in place. It was assumed that this type of disaster would never happen, but it did.

I hope this tragic event illustrates the need for action. Many of us on this side of the aisle have advocated a fundamental overhaul

to our energy policy, stressing a broad portfolio of energy sources and energy efficiency. This overhaul can be market driven if we apply a real cost to carbon and its effect on our economy and our quality of life and our environment.

This disaster demonstrates that we cannot delay in enacting comprehensive energy and climate change legislation to diminish our dependence on oil both foreign and domestic.

Today's hearing will provide unambiguous answers, I hope, on what to expect in the days, weeks, and years to come. For millions of people who face this nightmare, we must demand transparency and a clear assessment of the future.

I thank the witnesses for being with us today and let me join my good friend Mr. Welch in requesting BP to consent to an escrow fund that will provide a modest revenue for those who have been harmed. I say to the witnesses today, put it on the table. We must know it all.

Thank you. I yield back.

Mr. MARKEY. We thank the gentleman.

The chair recognizes the gentleman from Texas, Mr. Gonzalez.

**OPENING STATEMENT OF HON. CHARLES A. GONZALEZ, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

Mr. GONZALEZ. Thank you very much, Mr. Chairman. I will be very brief.

I usually don't make opening statements, but I think I can read the minds of the witnesses, Mr. Chairman. I think they are all saying all these individuals are stating the obvious and the political, and you are absolutely right. But I think when we get into the questioning it will be a whole different world.

As far as the political view, to be real honest with you, all those that are blaming the President for not meeting the BP CEO immediately, had the President done that I assure you today's statements would have been what was the President thinking meeting with the BP executives at the outset without first visiting the areas or first meeting with the Coast Guard and first responders. That's what would have happened.

What I am hoping that we are going to achieve today is to hear from these witnesses what are the energy needs of America, how are transportation fuels, obviously based on oil, and what we are going to do moving forward, the difference between deep and shallow water exploration and drilling and how we meet the immediate needs of our public, our constituents, our citizens of this country, and the fact that meeting those needs in the interim, as we transition to something different, can be done in a responsible fashion. We can meet the needs and act responsibly and that they are not mutually exclusive.

Thank you very much. I yield back.

Mr. MARKEY. We thank the gentleman from Texas.

That completes the period for opening statements from all of the members of the subcommittee. The chair does not see any other members.

Before we go to the witnesses, I will first make a unanimous consent that Chairman Stupak and Representatives Blackburn, Cas-

tor, DeGette, Weiner, and Jackson Lee be permitted to question witnesses following questions by members of the subcommittee.

Without objection. The chair hears no objection from any of the members of the subcommittee, so it is so ordered.

It is the policy to swear you in before you testify. So I would ask each of you to please rise and raise your right hand.

[Witnesses sworn.]

Mr. MARKEY. Let the record reflect that each of the witnesses responded in the affirmative.

STATEMENTS OF REX W. TILLERSON, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, EXXONMOBIL; JOHN S. WATSON, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, CHEVRON; JAMES J. MULVA, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, CONOCOPHILLIPS; MARVIN ODUM, DIRECTOR OF UPSTREAM AMERICANS AND PRESIDENT, SHELL OIL CO.; AND LAMAR MCKAY, CHAIRMAN AND PRESIDENT, BP AMERICA, INC.

Mr. MARKEY. Now we turn to our first witness, Mr. Rex Tillerson.

Mr. Tillerson is the Chairman and the Chief Executive Officer of the ExxonMobil Corporation. He is also a member of the Business Roundtable and the American Petroleum Institute.

We welcome you, Mr. Tillerson. Please begin when you are ready.

STATEMENT OF REX W. TILLERSON

Mr. TILLERSON. Thank you, Chairman Markey, Ranking Member Upton, members of the subcommittee.

Of the many issues on the energy agenda, none is more pressing than the accident and the spill unfolding in the Gulf of Mexico. As someone who has spent his entire career in the energy industry, it truly is deeply saddening to see the loss of life, the damage to environmentally sensitive areas, the effect on the economic livelihoods, and the loss of the public trust in the energy industry that has resulted. Clearly, this incident and the response will have important consequences for the environment, for the citizens and businesses of the Gulf Coast, and for our Nation's energy policy.

It is essential that we understand the events that led to this unprecedented accident and take corresponding steps to reduce the likelihood of a similar event ever occurring again. An expert, impartial, and thorough approach to understanding what happened is crucial, because this incident represents a dramatic departure from the industry norm in deepwater drilling. Understanding the facts surrounding this incident is critical to informing the long-term policy and the operational response.

We are eager to learn what occurred at this well that did not occur at the other 14,000 deepwater wells that have been successfully drilled around the world. It is critical we understand exactly what happened in this case, both the drill well design and operating procedures and the execution of the drilling plans, which led to such severe consequences. We need to know if the level of risk taken went beyond the industry norms.

Based on the industry's extensive experience, what we do know is when you properly design wells for the range of risk anticipated,

follow established procedures, build in layers of redundancy, properly inspect and maintain equipment, train operators, conduct tests and drills and focus on safe operations and risk management, tragic incidents like the one we are witnessing in the Gulf of Mexico today should not occur.

For many, current events bring back memories of the 1989 Exxon Valdez tanker spill. That accident was the low point in Exxon Mobil's history, but it also was a turning point. In the aftermath, we launched a full-scale, top-to-bottom review of our operations and implemented far-reaching actions that today guide every action we make on a daily basis. An overriding commitment to safety excellence is embedded in everything we do, with a daily commitment by our employees and our contractors to a culture that "nobody gets hurt".

In the early 1990s, we began development of our Operations Integrity Management System, or OIMS, a rigorous regime of 11 separate elements that measures and mitigates safety, security, health, and environmental risk.

It is significant that the first element of OIMS is management leadership and accountability. This management system applies to every operation we undertake. It is our common global language for safety and accountability, and when we do have incidents we seek to learn from them so that we continuously improve our performance in the system. It is a system which requires internal and external assessment of each business unit's progress towards complying with all of the 11 elements.

With respect to drilling, ExxonMobil has drilled almost 8,000 wells worldwide over the last 10 years. Of these, 262 have been in deepwater, including 35 in the Gulf of Mexico.

The standards and requirements that operate within OIMS dictate our approach to drilling, as they do for all of our other operations. We have documented standards for equipment and well design. We utilize proprietary technology to predict pressures and model resource flow, and we carefully analyze that information to both understand and reduce the risk. We ensure everyone onboard the rig, contractors included, know their roles and responsibilities and that all operations must be in compliance with ExxonMobil's expectations and standards, and we test this knowledge through regular drills and exercises.

Sticking through this system has required us to make some difficult decisions. We do not proceed with operations if we cannot do so safely.

The American people have shown their support for deepwater drilling, but they expect it to be done safely and in an environmentally sensitive way.

They have supported it because they understand it is important. In the Gulf of Mexico, it accounts for about 24 percent of U.S. oil production. Oil and gas activity in the Gulf, including deepwater drilling, accounts for approximately 170,000 direct and indirect jobs. Worldwide, deepwater production is estimated to equal, in a few years, the entire production of Saudi Arabia, and it is a vital part of an industry that supports more than 9 million full- and part-time American jobs and adds \$1 trillion to our gross domestic product.

These facts show how critical it is that all industry participants have the trust of the American people. We can secure this trust if we take the time to learn what happened and develop our response appropriately to ensure that every participant acts responsibly, learns the right lessons, and upholds the high standards.

The American people deserve nothing less.

Thank you.

[The prepared statement of Mr. Tillerson follows:]

*Rex W. Tillerson
Chairman and CEO, Exxon Mobil Corporation
U.S. House of Representatives
Energy and Environment Subcommittee
June 15, 2010*



Chairman Markey... Ranking Member Upton... members of the Subcommittee.

Of the many issues on the energy agenda, none is more pressing than the accident and spill unfolding in the Gulf of Mexico.

As someone who has spent his entire career in the energy industry, it is deeply saddening to see the loss of life... the damage to environmentally sensitive areas... the effect on economic livelihoods... and the loss of public trust in the energy industry that has resulted.

Clearly, this incident and the response will have important consequences for the environment, for the citizens and businesses of the Gulf Coast, and for our nation's energy policy.

It is essential that we understand the events that led to this unprecedented accident, and take corresponding steps to further reduce the likelihood of a similar event ever occurring again.

An expert, impartial and thorough approach to understanding what happened is crucial because this incident represents a dramatic departure from the industry norm in deepwater drilling.

Understanding the facts surrounding this incident is critical to informing the long-term policy and operational response.

We are eager to learn what occurred at this well that did not occur at the 14,000 other deepwater wells that have been successfully drilled around the world. It is critical we understand exactly what happened in this case, both the drill well design and operating procedures, and the execution of the drilling plans, which led to such severe consequences. We need to know if the levels of risk taken went beyond industry norms.

Based on the industry's extensive experience, what we do know is that when you properly design wells for the range of risk anticipated... follow established procedures... build in layers of redundancy... properly inspect and maintain equipment... train operators... conduct tests and drills... and focus on safe operations and risk management, tragic incidents like the one in the Gulf of Mexico today should not occur.

For many, current events bring back memories of the 1989 Exxon Valdez tanker spill.

That accident was the low-point in ExxonMobil's history. But it was also a turning point. In the aftermath, we launched a full-scale, top-to-bottom review of our operations, and implemented far-reaching actions that today guide every operating decision we make on a daily basis. An overriding commitment to safety excellence is embedded in everything we do, with a daily commitment by our employees and contractors to a culture that "Nobody Gets Hurt."

In the early 1990's, we began development of our Operations Integrity Management System, or OIMS – a rigorous regime of 11 separate elements that measures and mitigates safety, security, health and environmental risk. It is significant that the first element of OIMS is management leadership and accountability.

This management system applies to every operation we undertake. It is our common global language for safety and accountability. And when we do have incidents, we seek to learn from them so that we continuously improve our performance. It is a system which requires internal and external assessment of each business unit's progress towards complying with all 11 elements.

With respect to drilling, ExxonMobil has drilled almost 8,000 wells worldwide over the last ten years. Of these, 262 have been in deepwater, including 35 in the Gulf of Mexico.

The standards and requirements that operate within OIMS dictate our approach to drilling, as they do for all of our other operations. We have documented standards for equipment and well design. We utilize proprietary technology to predict pressures and model resource flow, and we carefully analyze that information to both understand and reduce risk. We ensure everyone onboard the rig, contractors included, knows their roles and responsibilities and that all operations must be in compliance with ExxonMobil's expectations and standards. And we test this knowledge through regular drills and exercises.

Sticking to this system has required us to make some difficult decisions. We do not proceed with operations if we cannot do so safely.

The American people have shown their support for deepwater drilling – but they expect it to be done safely and in an environmentally sensitive way.

They have supported it because they understand it is important. In the Gulf of Mexico, it accounts for about 24 percent of U.S. oil production. Oil and gas activity in the Gulf, including deepwater drilling, accounts for approximately 170,000 direct and indirect jobs. Worldwide, deepwater production is estimated to, in a few years, equal nearly the entire production of Saudi Arabia. And it is a vital part of an industry that supports more than 9 million full- and part-time American jobs and adds \$1 trillion to our Gross Domestic Product.

These facts show how critical it is that all industry participants have the trust of the American people. We can secure this trust if we take the time to learn what happened and develop our response appropriately to ensure that every participant acts responsibly, learns the right lessons and upholds the highest standards.

The American people deserve nothing less. Thank you.

Mr. MARKEY. Thank you, Mr. Tillerson.

Our next witness is Mr. John Watson. Mr. Watson is the Chairman and Chief Executive Officer of the Chevron Corporation. He is a Director and member of the Executive Committee of the American Petroleum Institute as well as a member of the National Petroleum Council.

We welcome you, Mr. Watson.

STATEMENT OF JOHN S. WATSON

Mr. WATSON. Thank you, Mr. Chairman and Ranking Member Upton. My name is John Watson, and I do lead Chevron.

As we meet today, the tragedy in the Gulf of Mexico does continue to unfold. Our thoughts are with the families who lost loved ones, workers who were injured, and communities that are dealing with the economic and ecological damage.

For Chevron, this tragedy is very personal. Our employees knew people who died on the Deepwater Horizon. More than 13,000 Chevron employees live and work in the Gulf region. We have a very personal stake in operating safely because it is our home, too. For our industry, this is a humbling experience. The American people expect that the energy we need will be produced safely and reliably, and that did not happen here.

This morning, I will focus my comments on what Chevron did immediately following the accident and why I believe deepwater development can be done safely.

After the Deepwater Horizon accident, Chevron provided its full support to the response. We deployed experts to assist BP and advise the Coast Guard on marine transportation planning. We have also been working with communities and organizations across the Gulf region.

We helped to lead the Joint Industry Task Force, which made recommendations to the Department of the Interior to raise industry standards to an even higher level. A majority of these standards are already embedded in Chevron's operations.

Within hours, Chevron held safety stand-downs on our rigs around the world to review drilling processes and procedures. We examined our blowout contingency plans and scrutinized our drilling and completion policies.

We also stress the responsibility that every single Chevron employee and contractor has, and that's the authority to stop work immediately if they see anything unsafe. At Chevron, we reward people who exercise this authority.

At Chevron, one goal overrides all others, making sure everyone goes home safe every day. We have multiple systems to prevent a tragedy like the Deepwater Horizon. Our drilling policies and procedures are rigorous, we require continuous training, we certify our drilling personnel to ensure they are qualified to manage unusual circumstances, and we verify that contractors have the skills to execute well control.

Our internal review confirmed what our regular audits have told us. Chevron's deepwater drilling and well control practices are safe and environmentally sound.

Since our first year of deepwater exploration in 1987, Chevron has successfully drilled 375 deepwater wells around the world. But

we know that we can always learn and improve, so we welcome any new standards and safeguards that improve safety and prevent future accidents.

To that end, we must act quickly to implement the recommendations made by the Joint Industry Task Force to ensure that all companies are made with the same high standards of safety and reliability. Chevron will accept any new standard and adopt new standards that it doesn't already apply.

We must also expedite the work of two new industry task forces, one focused on subsidy well control and the other on spill response and cleanup. We also are committed to work with the President's independent commission, and we will contribute to improve safety in every way that we can.

Now we must restore the country's confidence in deepwater drilling. I believe the independent investigation will show that this tragedy was, indeed, preventable. This is not a trade-off of energy for safety. I strongly believe that responsible deepwater development must continue. America needs the energy, and we can produce that energy safely.

Our Nation would lose more than it has already lost if this accident becomes the basis for reversing the many benefits of offshore development. Today, production in the Gulf of Mexico accounts for 15 percent of our natural gas, 27 percent of our domestic oil supply. The Gulf of Mexico production is also a foundation of local economies, providing significant jobs, economic development, and revenue.

The Deepwater Horizon tragedy reinforces that all companies must operate with the same high standards of safety and reliability. It is clear that failure to do so does have dire consequences.

Mr. Chairman, we must learn from this accident; and we must make sure it never happen again. My commitment to you is that Chevron will do everything in its power to see that it doesn't.

Thank you.

[The prepared statement of Mr. Watson follows:]

John S. Watson
Chairman and Chief Executive Officer
Chevron Corporation
Statement Prepared for the Hearing on
“Drilling Down on America’s Energy Future: Safety, Security and Clean Energy”
Energy and Environment Subcommittee of the House Energy and Commerce Committee
June 15, 2010

Chairman Markey, Ranking Member Upton, Members of the Committee, my name is John Watson and I am Chairman and CEO of Chevron Corporation.

Chevron is America’s second largest energy company and we are one of the largest leaseholders and producers in the Outer Continental Shelf in the Gulf of Mexico. Our 27,000 U.S. employees and our 32,000 employees elsewhere in the world take pride in the work we do to bring the world the energy it needs.

As we meet today, the tragedy in the Gulf of Mexico continues to unfold. Our thoughts are with the families who have lost loved ones, the workers who were injured and the communities who are dealing with the impacts of this accident.

For Chevron, this tragedy is very personal. Many of our employees in the Gulf of Mexico knew the people who died or were injured in the Deepwater Horizon accident. We have more than 13,000 employees who live and work in the Gulf region. We have a personal stake in operating safely on the Gulf Coast: It is our home, too.

For our industry, this experience is humbling. We operate based on an expectation we share with the American people: the energy that we need will be produced safely and reliably. That did not happen here. Now, it is imperative for our industry to step up and restore our country’s confidence in the safety of drilling operations. We strongly believe that responsible deepwater development must continue: America needs the energy. And we can produce that energy safely—including in the deepwater.

Immediately after the Deepwater Horizon accident, we provided our full support to the response. We deployed Chevron experts to assist BP, and to advise the U.S. Coast Guard on marine transportation planning. We have also been working with communities and organizations across the Gulf region.

Chevron helped lead the Joint Industry Task Force, which made recommendations to the Department of the Interior to raise industry drilling standards to an even higher level. Chevron already uses many of these new proposed standards.

Within a few hours of the Deepwater Horizon accident, Chevron held safety briefings on our rigs around the world, reviewing drilling processes and procedures. We examined blowout contingency plans across our global operations. We scrutinized our drilling and completion policies. We reinforced our own safety practices, which include what we call “stop work” authority—the responsibility of any employee or contractor to stop work immediately if they see anything unsafe. All our people clearly understand they have that authority. They take it very seriously, and they do stop work. We reward people who exercise stop-work authority, to

underscore both its importance and our aim to confront any problem right then and there. After the accident, we also reaffirmed with our entire global drilling network the standing requirement to them, and to every member of Chevron's global workforce: take the time to do things right or not at all.

Chevron's drilling policies and procedures are rigorous. We require continuous training and the certifications necessary for qualified drilling personnel. Certifications cover procedures to manage unusual circumstances and the means to verify that contractors involved in drilling wells possess the skills necessary to execute well control.

Our internal review immediately following the Deepwater Horizon accident confirmed what our systematic ongoing reviews tell us: Chevron's drilling and control practices for deepwater wells are safe and environmentally sound. But—we operate with the belief that we can always learn and improve and we do. This belief is reflected in an enduring commitment to continuously improve our performance and keep safety ingrained in every aspect of Chevron's DNA.

Chevron's Operational Excellence Management System (OEMS) is how we systematically manage safety, health, the environment, reliability and efficiency across our daily operations around the world. With OEMS, we systematically audit our procedures to assure compliance, identify and reduce risk of incidents, ensure preparedness for emergency response and improve overall performance.

Providing the critical energy supplies our country needs is a responsibility we take very seriously. We dedicate our careers to mitigating our industry's risks with the paramount goal that each of us returns home safe every day. For a safety culture to take hold, it comes down to people. So we challenge every Chevron employee and contractor, from the newest hire on up, to take personal responsibility for their own safety—and the safety of those around them.

Chevron's commitment to safety is fundamental to who we are. It was fundamental to who we were before the Deepwater Horizon accident, and it will continue to define us in the years ahead. So we welcome any new standards, safeguards and oversight that will help prevent future accidents.

Today, we are all working to understand the underlying causes of this tragedy. We must act to quickly implement new standards and safeguards so that we can reinstate drilling in the deepwater Gulf of Mexico. We must get people back to work developing the energy America needs—the resulting jobs and energy are especially important in this fragile economy.

For the last two years—and for the first time since 1970—U.S. crude output has increased for one reason: deepwater development in the Gulf of Mexico.

Production in the Outer Continental Shelf (OCS)—almost all of which is in the Gulf of Mexico—currently accounts for 15 percent of the nation's natural gas. Production in the Gulf of Mexico accounts for 27 percent of our nation's domestic supply of oil.

The ramp-up of new deepwater projects in the Gulf eases dependence on imports and strengthens America's energy security. That positive dynamic will only increase. According to Wood Mackenzie, U.S. Gulf of Mexico deepwater oil and natural gas production is forecast to

account for a third of total U.S. production and nearly 95 percent of total offshore production by 2020.

Along with vital energy, Gulf of Mexico production provides significant jobs, economic development and revenue. Wood Mackenzie estimates that a six-month moratorium on new drilling would defer or lose 80,000 barrels of oil a day in the first year. That would also translate into a reduction of up to \$500 million in royalties and taxes. The moratorium will likely draw drilling rigs away from the Gulf of Mexico to overseas basins, further delaying development and negatively affecting crucial U.S. jobs that support these operations. Any extension of the moratorium will only exacerbate the economic consequences. The Louisiana Department of Economic Development estimates that with the active drilling suspension, within a few months time, more than 10,000 jobs could be lost—in Louisiana alone.¹

For the first time in two years, global oil demand is expected to resume growth as economies recover from the economic downturn. The return of rising demand for oil underscores the need to encourage high levels of investment in energy supply at home and abroad. This investment is imperative to sustain economic recovery and avoid the supply-demand imbalance that led to high energy prices in 2008.

At the same time, we need to maintain a long-term perspective and do all we can to develop all forms of energy for the foreseeable future. This includes a sharpened focus on alternatives and renewables, even as we continue to develop our domestic oil and gas resources. This also includes conventional and unconventional gas that have the possibility to dramatically expand our domestic energy supplies. Moreover, a portfolio approach to energy development must begin with a focus on energy efficiency. We need to become a nation of energy savers. Energy efficiency remains the easiest, cheapest and most reliable form of "new" energy available. It helps moderate demand for carbon-intensive fuels, reduce energy costs and preserve finite natural resources.

Energy consumption—primarily through electricity generation and transportation—is currently the largest contributor of greenhouse gas emissions. The potential benefits of reducing energy demand through conservation and efficiency are substantial: a 20% improvement in U.S. energy efficiency could result in saving the equivalent of 10 million barrels of oil and reducing 1.5 billion metric tons of CO₂ emissions per year.

For Chevron, conservation is an important business strategy and we are now in our 19th year of reducing our own energy use—by 30% since 1992. We're also in the business of helping others improve energy efficiency. Chevron Energy Solutions (CES) is one of the largest energy services companies in the U.S., helping customers increase energy efficiency, reduce energy use and integrate distributed renewable power.

We are making progress in the area of transportation emissions. The EPA projects the 2012-2016 combined tailpipe emissions and fuel economy standards for light-duty vehicles

¹ The Louisiana Department of Economic Development estimates that the active drilling suspension alone will result in a loss of 3,000 to 6,000 Louisiana jobs in the next 2-3 weeks and potentially over 10,000 Louisiana jobs within a few months. If the suspension of active drilling activity continues for an extended period, LED estimates that the state risks losing more than 20,000 existing and potential new Louisiana jobs in the next 12-18 months.

developed by the EPA and NHTSA will, over the lifetime of the vehicles sold during that period, cut U.S. auto emissions by 21 percent by 2030, and save 1.8 billion barrels of oil.

Diversification of fuels is another important step. Chevron supports the role of cellulosic biofuels, which do not undermine the food supply. Cellulosic biofuels and other bio-hydrocarbon fuels will play an increasing role in the future energy mix. However, their availability at scale in the near future is not assured.

Even with the most aggressive scenarios for efficiency and the development of alternatives, the sheer scale of the world's growing demand for energy points to an inescapable fact: The world will need a steady supply of oil and natural gas for decades to come.

This is why responsible, environmentally sound exploration and production of America's vast energy resources is vital. In the short term, it will help spur America's economic recovery. Over the long term, it will sustain our economic competitiveness. Every additional barrel produced here at home reduces our dependence on imported energy. Every additional barrel produced here keeps American jobs and dollars at home.

Our industry already provides good jobs to 2.1 million Americans directly and another 7 million indirectly. Developing the Outer Continental Shelf and other areas that are presently off-limits could create 160,000 new jobs—and provide up to \$1.7 trillion additional government revenue.

We know that our license to operate in the important deepwater areas of the outer continental shelf depends upon a proven capability to operate safely and in an environmentally sound manner. When you operate at the frontiers of geology, under incredible extremes in temperature, pressure and water depths, best practices must be your only practices.

For these reasons, we support the detailed recommendations made by the Joint Industry Task Force to improve the safety of offshore operations. As I mentioned earlier, Chevron already uses many of these practices. We are operating with the highest standards of safety and environmental stewardship, and we will comply with all new requirements. Additionally, we're committed to work with the President's independent investigative commission. We believe this commission can provide answers and recommendations to further improve safety. We'll contribute in every way we can, and take a rigorous look at improving and strengthening operating standards.

It's important to keep in mind that, as tragic and significant as this incident is, it occurred in an industry with a strong record for safety and environmental protection. Our nation would lose more than it has already if this single incident became the basis for scaling back or shutting down the many positive benefits of offshore development in the Gulf of Mexico and elsewhere—the jobs, the economic development, the revenue, and the increased flexibility of America's energy supply.

We all know that actions speak louder than words. Chevron's top priority over the coming days, weeks and months will be to demonstrate to you, your colleagues and the American public that we understand that we operate by public permission. We understand that we're given this permission in order to advance another great public interest: supplying the

energy that drives economic growth, keeps Americans working, and makes our country stronger and more secure.

At Chevron, everything we do begins with our fundamental commitment to safety. The Deepwater Horizon accident tragically reinforces that all companies must operate with the same high standards of safety and reliability. It is clear that failure to do so has dire consequences. I believe the independent investigation will show that this tragedy was preventable.

We must learn from it and make sure that it never happens again. Chevron's commitment to you is that we will do everything in our power to see that it doesn't.

Mr. MARKEY. Thank you, Mr. Watson.

Our next witness is Mr. James Mulva. Mr. Mulva is the Chairman and Chief Executive Officer of the ConocoPhillips Company. He is also a member of the National Petroleum Council and has served as the chairman of the American Petroleum Institute.

We welcome you, Mr. Mulva. Whenever you feel comfortable, please begin.

STATEMENT OF JAMES J. MULVA

Mr. MULVA. Thank you, Chairman Markey, ranking member Upton, and committee members. Thank you for the opportunity to appear before you this morning.

All of us at ConocoPhillips extend our condolences to the loved ones and friends of the 11 workers lost on Deepwater Horizon. Our thoughts and prayers are also with those injured or who have been impacted by this spill.

The Deepwater Horizon incident is a matter of national urgency. As Americans, we have a long history of joining together in times of need and then working to find solutions that are in our national interest.

So in that spirit and in support of the people along the Gulf Coast whose lives and livelihoods have been affected, ConocoPhillips is providing manpower, materials, and resources to responders and the emergency personnel there. We will do so until the spill is contained and affected areas have been restored.

We are not in a position to know about what went wrong at the Deepwater Horizon. The companies involved and the regulators certainly will do that. But, as an industry, we must commit ourselves to learning lessons from this tragedy and ensuring that nothing like Deepwater Horizon ever happens again.

So any necessary changes undertaken by Congress, the executive branch, and industry should be one element of a broader national energy policy. That's a policy that recognizes that we have a robust oil and gas industry that generates vital U.S. jobs as well as substantial State and Federal revenue from tax and royalty payments, one that guarantees the security of the energy that drives our national economic well-being. Also, a policy that assures the safe, environmentally responsible production of all forms of energy along with its wise use. These are essential to a healthy and to a growing economy.

Another key element of a comprehensive energy policy should be Federal action to address global climate change. As you are aware, ConocoPhillips supports passage of a comprehensive Federal law establishing a clear and transparent price for carbon. A Federal legislative framework, at a minimum, must provide a program to manage transportation emissions, one that protects consumers while encouraging investment in lower carbon technologies.

It also must address the energy intensive and trade exposed nature of our domestic refineries.

It must create new legislative mechanisms specifically for regulating greenhouse gas emissions. This would be in place of the Clean Air, Clean Water, and Endangered Species Acts and other Federal and State programs.

It must recognize the essential role of natural gas in achieving a lower carbon energy future.

Lastly, in order to achieve our national energy goals, U.S. energy policy must create, supply diversity, promote technological innovation, encourage energy efficiency, and environmental stewardship.

Today, our country is working toward an energy future featuring a broad portfolio of energy sources; and these will include renewable sources and cleaner fossil fuels, broader conservation, and new, more efficient energy technologies. Each of those approaches will provide a part of the long-term solution.

As a Nation, we are on our way, we will get there, but it is going to take us some time. Until then, we must fulfill America's pressing energy needs, in short providing fuel that enables people to travel to work and back, moves goods around the world, powers the lighting, heat, electricity, and machinery in which our homes, factories, and hospitals depend, and provides the fuel and fertilizer that enables us to feed a growing population.

In doing this, even with strong growth and renewable sources, carbon fuels must keep carrying the energy load far into the future.

Fortunately, we have natural gas. It is one of the most important domestic resources available for use by our country in reaching its climate and energy security objectives. It is clean, it is affordable, it is reliable, abundant, and available here at home.

We believe that through a national spirit of shared commitment to a mutually beneficial outcome, America can achieve its energy goals. As a company, ConocoPhillips is committed to doing so.

So thank you very much for do this opportunity. I look forward to responding to questions that you may have.

[The prepared statement of Mr. Mulva follows:]

**Testimony of James J. Mulva
Chief Executive Officer, ConocoPhillips
Before the
Energy and Environment Sub-Committee
Of the
House Energy and Commerce Committee
U.S. House of Representatives
Tuesday, June 15, 2010**

Good morning Chairman Markey, Ranking Member Upton and members of the Energy and Environment Sub-Committee. My name is Jim Mulva and I am Chairman and Chief Executive Officer of ConocoPhillips. Thank you for the opportunity to come before the Committee this morning.

ConocoPhillips is an international energy company employing approximately 29,900 people globally, 19,300 of whom are located here in the United States.

Let me begin by saying that the ConocoPhillips family extends our heartfelt condolences to the loved ones and friends of the 11 workers lost on the Deepwater Horizon incident in the Gulf of Mexico. We also extend our thoughts and prayers to the workers who were injured during the incident and for all those impacted by the oil spill.

The Deepwater Horizon incident is a matter of national urgency. We in the energy industry truly understand the gravity of this emergency and the significant impact it has had on the environment and on all those who live and work in the Gulf Coast area. ConocoPhillips has made our resources available to those responding to the spill. The industry will continue to work vigilantly alongside government and the responders until the spill is contained and all affected areas are restored. This is our industry's first priority.

Once that job is finished and we have all fully taken stock of the lessons to be learned from this disaster, the business of offshore exploration will and must continue. It will continue because we can and will do it safely and responsibly. And it must continue, not only for what it yields for our nation, but also because that's what America does. We learn new lessons and move forward to higher levels of progress and achievement.

We are not in a position to speak about what went wrong at the Deepwater Horizon. The companies involved and the regulators will speak to that. But as an industry, we must commit ourselves to learning lessons and making necessary changes to ensure that nothing like Deepwater Horizon ever happens again.

Energy Policy

Any necessary changes undertaken by Congress, the Executive Branch and industry should be part of a broader national energy policy that guarantees the security of the energy supplies that are vital to our national economic well-being. Energy policy that

assures the safe and environmentally responsible production of all forms of energy, along with its wise use, is an essential predicate to a healthy and growing economy.

To this end, ConocoPhillips supports energy policies that promote four objectives.

- Supply diversity;
- Technological innovation;
- Energy efficiency; and
- Sound environmental stewardship.

Each of these objectives is uniquely important to energy security. Because energy is a global commodity, these objectives must be continually integrated and balanced in order to avoid putting the United States – as well as its domestic energy industry – at a competitive disadvantage to the rest of the world.

We believe that meeting projected increases in U.S. demand for energy during the coming decades will require the use of all available energy sources, which include conventional and unconventional oil and natural gas, coal, nuclear power and renewable and alternative sources, coupled with energy efficiency. Energy security comes from supply diversity.

Technological innovation has always been the key to advancing the emerging energy sources of the future. But such innovation does not happen overnight, or without cost and considerable effort. ConocoPhillips is researching and deploying technology to utilize renewable feedstocks at modified refineries, and in turn to produce lower carbon renewable fuels that can utilize existing U.S. refining and distribution infrastructure. We are also monitoring ongoing research of other promising technology. Once these renewable technologies are proven at commercial scale, and are cost competitive in the market, we will consider investment opportunities. In the meantime, we believe that greater energy efficiency can improve energy security and help minimize environmental impacts.

It is critical to understand that environmental stewardship and energy resource development are not inherently contradictory objectives, despite the recent tragic events in the Gulf of Mexico. Both can and must be achieved. These are not mere words, Mr. Chairman; this is one of the primary ways in which our industry must always measure success.

Climate Policy – Need for Federal Legislation

ConocoPhillips further believes the United States must take action on the issue of global climate change. But there is a right way and a wrong way to deal with the issue.

The right way is a new comprehensive federal law specifically tailored to the unique nature of greenhouse gas emissions and their regulation. This law would establish a clear and transparent price for carbon.

The wrong way is attempted reliance on existing federal laws that were not designed or ever intended to address greenhouse gas emissions, or on state climate requirements that create an inconsistent patchwork of regulations. We remain committed to working with lawmakers to assist in devising practical, equitable and cost-effective policy that will reduce U.S. greenhouse gas emissions and address the impacts of climate change.

Climate change policy is tightly linked to American energy security. Therefore, policy objectives to address greenhouse gas emissions must be balanced with the need to continue supplying the energy that powers the national economy, preserves and creates jobs, and assures quality of life. If climate change policy is not thoughtfully balanced with these energy security objectives in mind, we risk not only falling short of our climate goals, but also harming our economy, just as it begins to recover from the recession.

ConocoPhillips has been deeply involved from the start of this Congress in the effort to enact a responsible climate law. We have worked with a cross section of stakeholders to further develop a legislative framework that addresses issues of key concern to the public, government and our industry. It is our view that a federal legislative framework, at a minimum, must:

- Provide a program to manage transportation emissions that protects consumers while supporting investment opportunities in low-carbon technologies.
- Address the energy-intensive and trade-exposed nature of our nation's refineries.
- Create a new legislative mechanism specifically for regulating greenhouse gas emissions in place of the Clean Air Act, Clean Water Act, Endangered Species Act, National Environmental Policy Act and other federal and state programs.
- Recognize the essential role and benefits of natural gas in achieving a lower-carbon energy future.

Natural Gas and Climate Policy

In order to fulfill America's pressing energy needs – providing the fuel that enables people to travel to work and back, that moves goods around the world, that powers the lighting, heat, electricity and machinery on which our homes, factories and hospitals depend, and that provides the fuel and fertilizer that enables us to feed a growing population – we must utilize a broad portfolio of energy sources that includes carbon-based fuels. Even with strong growth in renewable sources, carbon-based fuels must carry the energy load far into the future.

Natural gas is critical to this country's energy future. It is clean, affordable, reliable and abundant, right here in the United States.

Our policies should not attempt to determine which energy sources are "winners," since this raises the risk of picking flawed solutions and discouraging research and development on other sources that might offer potential in the future. Rather, climate

policy should establish a value for carbon emissions, apply that value to all energy sources based on their carbon content, and then let the most economically and technologically efficient sources rise to the top.

A mandated use of renewable energy for electricity generation exemplifies a policy that attempts to pick energy winners. Such a mandate could prove expensive for consumers due to the higher costs of renewable energy, cannot be applied uniformly in all states, and does not provide for utilization of lower-carbon energy sources. If placing a price on carbon is deemed insufficient to drive emissions reductions in the power sector, we instead suggest implementing a clean-energy standard. This would enable multiple sources – including renewable energy, efficient natural gas power, coal-fired power combined with carbon capture and storage, as well as nuclear power – to compete on a level playing field. It would thus yield the most cost-effective and equitable approaches.

Oil Sands and Climate Policy

The Canadian oil sands are another good example of the need for balance between domestic climate policy and energy security. The oil sands are essential if North America is to meet its short- and long-term energy security needs. Without increased production from these abundant, conveniently located sources, North American energy costs will rise, the need for overseas imports will increase, and American jobs will be lost. It is estimated that development of Canada's oil sands and their subsequent export to the United States for refining and marketing will result in creation of over 340,000 new U.S. jobs between 2011 and 2015, and add an estimated \$34 billion to U.S. gross domestic product in 2015.

As with our other operations, ConocoPhillips is committed to minimizing greenhouse gas emissions resulting from oil sands development. It is important to recognize that the overall contribution of oil sands production to global greenhouse gas emissions is less than 0.1 percent. Also, the wells-to-wheels life-cycle emissions of oil sands are similar to other sources of heavy crude oil upon which many U.S. refineries already rely. The oil sands represent a stable, secure and abundant supply source from the United States' largest trading partner.

Conclusion

During times like these it is understandably hard to think about the good things our industry does and the important contributions our energy production makes towards the country's well being. Further, the oil and gas industry generates vital U.S. jobs as well as substantial state and federal revenue from tax and royalty payments.

It is important that we all look beyond these challenging times and work together to avoid inadvertently taking short-sighted energy policy positions that would undermine the country's efforts to achieve national energy security in the future.

Thank you again for this opportunity to be here today. I look forward to responding to your questions.

END

Mr. MARKEY. Thank you, Mr. Mulva.

Our next witness is Mr. Marvin Odum. Mr. Odum is the President of the Shell Oil Company. He is also on the board of the American Petroleum Institute.

We welcome you, Mr. Odum. Please begin when you are ready.

STATEMENT OF MARVIN ODUM

Mr. ODUM. Thank you, Chairman Markey, Ranking Member Upton, and members of the committee.

I am Marvin Odum, President of Shell Oil Company; and I would like to begin by acknowledging the continuing situation in the Gulf of Mexico, which is on the minds of every American. All of us at Shell are deeply saddened by the Deepwater Horizon explosion and the aftermath, the terrible tragedy for the families of those who lost their lives or were injured. Many of our employees and customers live along the Gulf Coast and feel that pain firsthand.

But getting to the root cause of this incident is critical. Like you, we want to know what went wrong with this well and the execution of this well design.

As the investigation findings are available, Shell will incorporate any findings into our operations worldwide. Since the beginning, Shell has made experts, equipment, and facilities available to BP and the responders, including our Robert Training Center outside of New Orleans as a site for unified command.

We took immediate steps to reinforce the safety of our operations globally, including a review of operating practices, testing frequencies, and training protocols. We remain confident in our expertise and procedures, and that comes from focus on five critical and integrated areas to ensure safe well design and drilling in the deepwater. Those are our global standards, our rigorous training and certification of the engineers, a safety case approach with our contractors to identify the risk and mitigate those risks, ensuring robust and multiple barriers in our wells, and 24/7 remote monitoring by skilled professionals who provide immediate support on critical issues such as well pressure changes.

As safety and environmental protection are and always will be Shell's top priorities, we welcome the recommendations outlined in Secretary Salazar's May 27 report to the President and the June 8th notice to leaseholders. Many of these elements that were included were already aligned with our global practices, and we will work to incorporate all of them.

In the context of this tragedy, we acknowledge the reasons for the President's decision to halt deepwater drilling, but it is not without consequences, thousands of jobs lost and billions in lost wages and spending, and not only in the Gulf Coast but also in places like Alaska.

This brings me to the topic that you asked us to speak about today, America's energy future. At Shell, we believe that population and economic growth will drive global energy demands to potentially double to today's use by 2050, even with strong efficiency gains. Energy supply from all sources—oil and gas, nuclear, renewable, and others—will struggle to keep up with this demand. Environmental stresses will grow, making the transition to lower carbon economies even more urgent.

With this as a backdrop, it is clear the world needs a more sustainable energy system. Alternative and renewable energies could be 30 percent of the new energy mix by 2050.

The scale and the massive infrastructure of the global energy system does mean that change takes time. At Shell, we believe our industry can best contribute by making more energy available, by reducing emissions, and by increasing our lower carbon energy share while generating jobs and doing so safely and responsibly.

Natural gas is not a renewable, but it is abundant in the U.S. and a lower CO₂ energy source. Increased natural gas for electricity is by far the quickest route and least expensive route to cleaner air. Within a couple of years, Shell will be producing more gas than oil and much of that in North America.

Biofuels are also one of the best opportunities for reducing CO₂ from transportation for at least the next 20 years.

Shell is the world's largest supplier of renewable blend fuels, and we are investing in lowest CO₂ biofuels made from sugar cane ethanol through a \$12 billion joint venture proposed for Brazil.

Investments in technologies such as these are creating jobs. One out of every \$5 spent in the U.S. supporting new energy jobs comes from investments made by our industry, which already supports more than 9.2 million American jobs. We need to retain these jobs and create new ones to fuel the economy of the future.

Society, government, and business must all do their part. Absence of a robust energy policy has been a disadvantage to this Nation. Shell supports legislating a solution to energy and climate issues as a means to create a secure U.S. energy future, to reduce dependence on imported oil, and to decrease greenhouse gas emissions.

Now this requires setting a price for carbon. But shying away from oil and gas development during the transition is not the answer. Oil and gas development is too important to the U.S. energy supplies and our economy to not safely and responsibly move forward. Shell stands ready and able with skilled people and state-of-the-art technology to continue meeting America's needs.

Thank you for your time, and I look forward to addressing your questions.

[The prepared statement of Mr. Odum follows:]

Statement of

Marvin E. Odum
President, Shell Oil Company

Before the

United States House of Representatives

Committee on Energy and Commerce

Subcommittee on Energy and Environment

Hearing

“Drilling Down on America’s Energy Future:

Safety, Security and Clean Energy”

Tuesday, June 15, 2010

Chairman Markey, Ranking Member Upton and members of the Committee:
I am Marvin Odum, president, Shell Oil Company and I appreciate the opportunity to testify today.

Before stating my comments on today's topic, I'd like to briefly address the continuing situation in the Gulf of Mexico – which is on the minds of every American. All of us at Shell are deeply saddened by the *Deepwater Horizon* explosion and aftermath – a terrible tragedy for the families of those who lost their lives or were injured, as well as our neighbors in the Gulf region. Many of our employees and customers live along the Gulf Coast and feel the pain firsthand – in damage to our environment and our economy.

Getting to the root cause of this incident is critical. Like you, we want to know what went wrong with this well and the execution of this well design. As investigation findings become available, Shell will incorporate learnings into our standards and operations. Shell is part of an industry task force working on recommendations to prevent such an incident from occurring again. We also are participating in the United States Coast Guard's *Deepwater Horizon* Incident Specific Preparedness Review.

Since the beginning, Shell has made experts and equipment available to BP and the responders, in addition to providing space for government and industry at

our Robert Training Center outside New Orleans. We immediately took steps to reinforce the safety of our operations with a comprehensive review of operating practices, testing frequencies and training protocols.

We remain confident in our drilling expertise and procedures, built on a foundation of multiple required safety barriers, proven methods and strict company standards. The first imperative of any project is that it be done safely. Safety and environmental protection are, and always will be, Shell's top priorities.

In the context of this tragedy, we acknowledge the reasons for the President's decision to pause deepwater drilling. But it is not without consequence: thousands of lost jobs, and billions in lost wages and spending. And not only on the Gulf Coast, but also in places like Alaska.

This brings me to the topic you've asked us to speak about today -- "America's Energy Future." I'll begin with the long-term trends that guide our own business planning.

- Population and economic growth will drive global energy demand to double today's use by 2050, even with strong efficiency gains.
- Energy supply from all sources -- fossil, nuclear and renewable -- will struggle to keep up with this demand.

- Environmental stresses will grow, making transition to lower-carbon economies even more urgent.

With this as a backdrop, it's clear the world needs a more sustainable energy system. Alternative and renewable energies could be 30% of the new energy mix by 2050, with cars powered by a variety of fuels such as gasoline, diesel, biofuels, natural gas, hybrids, electricity and hydrogen. However, fossil fuels will remain an important component of energy supply for decades to come.

The scale and massive infrastructure of the global energy system means that change takes time. Our research shows that in the twentieth century, it took 30 years for new energy types to capture 1% of the market. But we can do better. We can accelerate that pace of change going forward.

At Shell, we believe our industry can best contribute in three main ways: (1) making more energy available, (2) reducing emissions, and (3) increasing lower-carbon energy share while generating jobs -- and doing so safely and responsibly.

Natural gas may not be a renewable, but it is abundant in the U.S. and a lower-CO₂ energy source. It will be important both as a bridge to a low-carbon energy future and a vital "destination" in that energy mix. Increased natural gas use for electricity is by far the quickest and least expensive route to cleaner air.

Within a couple of years, Shell will be producing more gas than oil, much of that in North America.

In the transportation sector, biofuels are the best hope for reducing transport CO₂ for at least the next 20 years. Shell is the world's largest supplier of renewable blend fuels, and we are investing in production of the lowest-CO₂ biofuels – made from sugarcane ethanol. We estimate a CO₂ reduction of anywhere between 70% and 90%, compared to conventional oil-based gasoline. A proposed \$12 billion Shell joint venture in Brazil is expected to produce more than a half billion gallons of sustainable ethanol each year to start – with plans to grow and incorporate our advancing technology.

Investments such as this, and in other technologies, are creating jobs. One out of every five dollars spent in the U.S. supporting green jobs comes from investments made by our industry, which already supports more than 9.2 million American jobs. We need to retain these good jobs and create new ones with new technologies – as America will need all the energy we can get to fuel the economy of the future.

Society, government and business must all do their part to move to a lower-carbon economy. Absence of a robust energy policy has been a disadvantage to this nation. That is why Shell supports legislating a solution to energy and climate

issues as a means to create a secure U.S. energy future, reduce dependence on foreign oil and decrease greenhouse gas emissions. This requires setting a price for carbon, and we recommend cap and trade.

The ability to respond to change is a hallmark of any successful business. Working with government, the oil and gas industry must make necessary improvements and adapt to a changing world. But shying away from development is not the answer. Offshore drilling is too important to U.S. energy supplies and our economy not to safely and responsibly move forward.

Shell stands ready and able, with skilled people and state-of-the-art technology, to continue meeting America's energy needs.

I thank you for your time and I look forward to answering your questions.

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Mr. MARKEY. Thank you, Mr. Odum.

Our final witness is Mr. Lamar McKay. Mr. McKay is the President and Chairman of BP America.

Mr. McKay, please begin when you are ready.

STATEMENT OF LAMAR MCKAY

Mr. MCKAY. Thank you.

Chairman Markey, Ranking Member Upton, members of the committee, my name is Lamar McKay; and I am Chairman and President of BP America.

Before addressing the main topic of today's hearing, I would like to reiterate the profound sorrow and regret that all of us at BP feel for the loss of life and the oil spill resulting from the Deepwater Horizon explosion and fire.

This is very personal both to me and to BP. I am from Mississippi. I grew up in Mississippi. I spent summers on the Gulf Coast. Most of my family is in New Orleans, and I have most of my relatives and friends along the Gulf Coast.

The Gulf Coast States have hosted BP and BP's heritage companies for decades. Thousands of our employees, contractors, and their families call the Gulf Coast States home. This horrendous accident, which killed 11 workers and injured 17 others, has profoundly touched all of us. There has been tremendous shock that such an accident could have happened and great sorrow for the lives lost and the injuries sustained.

I would like to make one thing very clear: BP will not rest until the well is under control and we discover what happened and why in order to ensure that it never happens again. As a responsible party under the Oil Pollution Act of 1990, we will carry out our responsibilities to mitigate the environmental and economic impact of this accident. In fact, BP is going beyond obligations under OPA to agree to pay all legitimate claims for economic damages resulting from the spill.

While it is difficult to divert from the here and now, we cannot lose sight of the need to help shape the country's future energy and climate policy.

BP is committed to working with Congress and with a broad cross-section of energy producers, energy consumers, and other stakeholders to address the challenges of climate change in the context of increasing U.S. energy demand. We appreciate the opportunity to share our views on energy and climate policy, as well as the chance to discuss the major role of natural gas that it can play in speeding emission reductions in the power sector, delivering the greatest reductions at the lowest cost for consumers using technology that is available today.

BP advocates and has advocated for quite a time an all-of-the-above approach to tackling climate change, enhancing U.S. energy security and meeting the Nation's growing need for energy. We do support policies that encourage conservation, energy efficiency, and greater production of domestic energy, including alternatives, oil and gas and nuclear. Our views on climate policy flow from the fact that a ton of carbon is a ton of carbon, whether it comes out of a tailpipe or a smokestack and the belief that every ton should be treated the same.

We support a national climate policy that creates a level playing field for all forms of energy that produce carbon emissions.

We favor an economy-wide price for carbon based on fair and equitable action based across all sectors. Market-based solutions like a cap-and-trade or a linked fee are the best solutions to manage greenhouse gas emissions. Applied nationally, these would achieve maximum environmental effectiveness at reducing emissions, treat all energy consumers equitably, and facilitate investment in sustaining and creating jobs. We have long supported transitional incentives for alternatives to assist their development and accelerate their market entry.

Additionally, we think natural gas holds great promise in becoming a larger component of the U.S. energy pool and can provide a critical down payment at delivering upon our carbon reduction goals.

I would like to conclude by noting that, while BP is in the midst of a crisis right now and we are prepared to be judged by our response to that crisis, we cannot lose sight of the future.

Thank you, and I look forward to your questions.

[The prepared statement of Mr. McKay follows:]

**Statement of Lamar McKay
Chairman and President, BP America, Inc.
U.S. House of Representatives
Energy and Environment Subcommittee
June 15, 2010**

Chairman Markey, Ranking Member Upton, members of the committee, my name is Lamar McKay, and I am the Chairman and President of BP America.

Before addressing the main topic of today's hearing, I would like to reiterate the profound sorrow and deep regret that all of us at BP feel for the loss of life and the oil spill resulting from the explosion and fire aboard the Transocean Deepwater Horizon rig on April 20.

This is very personal, both to me and to BP. I am from Mississippi, and spent summers on the Gulf Coast growing up. I have many relatives and friends in the area. The Gulf Coast states have hosted BP and its heritage companies for decades. Thousands of our employees, contractors and their families call the Gulf Coast states home.

I would like to make one thing very clear: BP will not rest until the well is under control and we discover what happened and why, in order to ensure that it never happens again. As a responsible party under the Oil Pollution Act of 1990, we will carry out our responsibilities to mitigate the environmental and economic impact of this incident.

Policy remains critical to the provision of abundant, secure and sustainable energy

While it is difficult to divert from the here-and-now, we cannot lose sight of the future shape of energy and climate policy.

The Gulf of Mexico provides one quarter of US domestic oil production. It is one of the world's most significant energy-producing basins and is a resource that America and the world simply cannot do without.

Companies operating in the Gulf have operated safely and reliably. But, the failure of processes, systems and/or equipment must be and can be addressed to restore America's confidence in the industry's ability to continue providing the resources consumers need.

America's economy, security and standard of living today significantly depend upon domestic oil and gas production. Reducing our energy production, absent a concurrent reduction in consumption, would shift additional jobs and dollars offshore and place millions of additional barrels per day into tanker ships that must traverse the world's oceans.

At the same time, the challenge of creating a lower-carbon economy is still very much before us. Policy decisions that are taken can either progress or impede the move toward cleaner, more abundant domestic fuels such as natural gas. BP is proud of the role we have played in encouraging the move toward a lower-carbon energy future. We need to make increased use of abundant, domestic sources of cleaner-burning natural gas, as well as alternatives such as wind and biofuels.

BP estimates that world energy demand will soar 45 percent over the next 20 years. That's the equivalent of adding today's United States more than twice over. The International Energy Agency estimates that around \$1 trillion per year will need to be invested every single year during that time if we are going to have a chance of meeting that level of demand.

And while alternative fuels hold great promise, we must be realistic about what we can expect from them in the near-term. They start from an extremely low base. Scaling them up to the point where they can begin making a significant contribution to world energy demand is a project that will span decades.

We also believe that the potential benefits of increased energy efficiency have yet to be fully explored. Additionally, technologies such as carbon capture and storage might become commercially feasible within a decade.

The energy portfolio of the future will include all of these sources and technologies. But it will also very much include fossil fuels such as coal and petroleum. These fuel sources are so important in the power, industry and transport sectors that reducing our dependence on them can be nothing other than a long-term project.

And BP still firmly believes that the best way to move this process along and tackle man-made climate change is by putting a price on carbon. A price reflecting tightening constraints on carbon would both drive energy conservation and make lower carbon energy choices more cost competitive.

This is the basic energy policy challenge the world faces today.

We at BP intend on playing our part — by working with vehicle manufacturers on advanced engine technology, by providing better and cleaner transport fuels, investing in alternative energy resources and by bringing to market newly-abundant reserves of American natural gas.

With the right policy framework, we can bring to bear the optimal combination of resources, investment and ingenuity to meet this energy challenge. And crafting a policy to unleash that combination is the most useful contribution America can make to a sustainable energy future.

Legislative initiatives

BP supports a comprehensive climate and energy policy that includes development of all forms of energy (oil, natural gas, coal, nuclear, biofuels, wind, solar, etc.) and encourages efficiency and conservation.

BP supports an economy-wide price for carbon based on fair and equitable application across all sectors and believes that market based solutions, like a Cap and Trade or linked-fee, are the best solutions to manage GHG emissions. These market-based approaches should be applied nationally for maximum environmental effectiveness at reducing emissions across the US economy, treat all energy consumers equitably, and facilitate investment in sustaining and creating jobs.

As a member of US Climate Action Partnership (CAP), we helped draft a blueprint for climate change legislation that recommended, among other things, how cap and trade could work — with equitable treatment between all sources of carbon as a basis.

If all sources of carbon are not treated equitably, misallocation of capital and insulated consumption is likely to occur. Our bottom-line is a ton of carbon is a ton of carbon — whether it comes out of a tailpipe or a smokestack, it should be treated the same.

The American Power Act (APA) introduced in the Senate on May 12 by Sens. John Kerry and Joseph Lieberman appears to go some ways toward integrating US energy development needs while starting the country down the path toward reducing GHG emissions.

The APA appears to recognize the need to maintain manufacturing competitiveness while establishing a roadmap to move to a lower carbon economy. We continue to analyze the bill's provisions to determine how it impacts BP's operations. But we remain committed to working with the senators to improve the bill's provisions and to work for passage of a comprehensive energy and climate package.

BP America

BP has a long history in the US energy market. I represent the 23,000 US employees of BP America. We are not only one of the largest oil and gas producers in the United States, but also the company that invests in the most diverse energy portfolio in the industry. In the last five years, we have invested approximately \$35 billion in the US to increase existing energy sources, extend energy supplies and develop new, low-carbon technologies.

Oil & Gas: Offshore and onshore, BP is one of the largest producers of oil and gas in the United States. From the Alaskan North Slope to the deep waters of the Gulf of Mexico, we are a leader in providing America's traditional energy needs. Our recent discovery of the Tiber oil field in the Gulf is only the latest in a long list of BP investments in America's energy security.

Wind: We are major investors in wind generation and have amassed a land portfolio capable of potentially supporting 20,000 megawatts (MW) of wind generation, one of the largest positions in the country. Currently, we have 1,200 MW of wind generation on-line and expect to have an installed capacity of 2,000 MW of wind power by the end of 2010.

Biofuels: We are one of the largest blenders and marketers of biofuels in the nation. BP has committed more than \$1.5 billion to biofuels research, development and production in response to increasing energy demand and the need to reduce overall greenhouse gas emissions from transport fuels. Our cutting-edge research looks to use dedicated energy crops that will contain more energy and have less impact on the environment than past generations of biofuels. They will also be more compatible with existing engines and transport infrastructure, making them less costly to deploy at scale.

Carbon Management/Carbon Capture and Storage (CCS): BP is involved in three major CCS projects: active operations in Algeria; a potential hydrogen energy project in California, and a planned project in Abu Dhabi.

Solar: BP's solar business has been in operation for over 35 years and last year had sales of 203 MW globally. This represents an increase of 25% over 2008 and further growth is expected.

By investing heavily in the most diverse portfolio of energy sources in the industry, BP is helping meet America's energy needs while ensuring a more sustainable and secure energy future.

The Potential of Natural Gas

Natural gas has played a supporting role in America's energy story. However, we believe it is time for its role to change.

If the necessary technology is applied, within a stable fiscal and regulatory framework, natural gas can help fundamentally transform America's energy outlook and emissions profile in the decades going forward.

Its advantages are many:

- Natural gas is far and away the cleanest burning fossil fuel in the energy portfolio. It generates less than 50 percent of the CO₂ as coal per kilowatt

hour and emits significantly less sulfur dioxide, nitrogen oxide, and particulate matter. Unlike coal, natural gas does not emit mercury and generates no waste ash.

- It is also the most versatile fuel, because it can be employed in the power and industrial sectors, for home heating and for transportation.
- Natural gas pipeline infrastructure is already in place with more being built. There is also significant underutilized gas-fired power generating capacity.
- Natural gas generators are also more easily switched on and off, providing a synergistic compliment to intermittent sources such as solar and wind.
- Finally, natural gas-fired plants can be more easily expanded and permitted than other sources.

Policies promoting the use of natural gas in power generation hold the potential to create new American jobs throughout the natural gas value chain (exploration, production, pipelines and gas plants). We believe such policies can also help to address concerns around natural gas supply and volatility.

Supply

Over the last few years, a revolution has taken place in America's natural gas fields. Deposits of shale gas once thought out of reach are now accessible, due to new uses of proven technologies, such as hydraulic fracturing and horizontal drilling.

These technologies have doubled production in three of BP's key fields between 2006 and 2008. Additionally, these successes have led to major new discoveries, not only in traditional oil and gas states, but also in non-traditional States such as Pennsylvania, Ohio and New York.

The US had the world's strongest growth in natural gas production in 2009 (+3.5%) for the 3rd year in a row, largely due to growth of unconventional gas supply, especially shale gas. In fact, the US surpassed Russia as the world's largest natural gas producer in 2009. We can do more of this, if the right policy framework is put in place to encourage and enable the use of natural gas.

Estimates vary, but the US probably now has between 50 and 100 years worth of recoverable natural gas which is accessible with technology available today.

Options for integrating energy and climate policy

The US has already taken some significant steps toward lowering carbon emissions. In the arena of transportation, the federal government has mandated more fuel efficient vehicles and increasing use of biofuels.

According to the EPA, electricity generation is the largest single source of CO₂ emissions, accounting for 41 percent of all such emissions. Therefore, this is an area where we should dedicate some real focus.

The numbers are well known. Coal provides around half of America's electricity, but contributes over 80 percent of the CO₂ produced via electricity generation.

Virtually all projections show coal playing an indispensable role in the US energy picture for decades to come — and we agree. Coal, as well as natural gas plants, can be fitted with carbon capture and storage (CCS) technology. This involves capturing CO₂ and reverse-engineering and building a gas injection field so that we can put CO₂ back into the ground.

CCS faces challenges of implementation at scale, substantial costs and specific locational issues. It will take time, perhaps a decade or more, for the technology to mature.

Nuclear power is carbon-free and should be part of the solution. However, it is also capital intensive and has long lead times.

Wind and solar are the sources most often mentioned as alternatives to existing fuels, and BP is an industry leader in both. Wind can be economically competitive with more conventional sources, which is one reason it is growing so rapidly — but it still requires subsidies in today's environment. Solar is higher cost than wind and requires a greater government subsidy, though costs are coming down.

Both sources, however, face challenges and have limitations of intermittence and affordability. The development of smart-grid technology might alleviate some of these challenges, but we're not there yet.

So where does this lead us?

The role of natural gas in mitigating climate change

We support greater efforts toward energy efficiency and transitional incentives to encourage the rapid growth of alternatives.

We also think it is important to establish an economy-wide carbon price, with all hydrocarbon sources treated the same. In that framework, increased reserves of natural gas mean we can rely on it more fully to support demand growth in electric power generation.

For example, our analysis indicates that if the least efficient coal-fired plants are provided with transitional incentives to retire, the power sector could deliver a significant amount of near-to-medium term emission reductions at low costs. The

recently introduced American Power Act contains such an early retirement mechanism.

While, we are not suggesting that gas be mandated as a replacement for the retired capacity. It could also be replaced by cleaner, more efficient energy sources. However, with a level playing field for carbon, we believe the market will choose gas, because it offers the lowest-cost option to replace retired coal capacity.

BP believes these important actions will result in a significant down payment on carbon emission reductions, with minimal costs to generators and consumers while CCS and alternative energy technologies mature.

Conclusion

In summary, BP is committed to providing the United States with the energy it needs to grow in coming decades, and doing so in a responsible and sustainable manner.

We support policies which:

- Support development of all energy resources (oil, gas, nuclear, alternatives)
- encourage energy efficiency;
- provide transitional support to renewable technologies; and
- apply a consistent, economy-wide carbon price to all hydrocarbons.

BP is eager to join with policy makers, members of the energy sector, and other stakeholders in order to develop responsible policies that reduce carbon emissions and promote the use of clean, domestic sources of energy. Such efforts must not exclude or sideline any stakeholder.

BP is in the midst of a crisis right now. We know we will be judged on our response to it.

But we cannot lose sight of the future. America is at a critical juncture. If we begin to move now, we can enable a cleaner energy future for the nation. I don't believe we can afford to wait.

Mr. MARKEY. Thank you, Mr. McKay.

That completes the opening statements of our witnesses. We will now turn to questions by the subcommittee members. The chair will recognize himself.

As I mentioned in my opening statement, the Gulf of Mexico response plans for ExxonMobil, Chevron, ConocoPhillips, and Shell are virtually identical to BP's and just as deficient. As you can see by looking at the covers of these five plans on the screen and over my head, the pictures are the same for each plan. All that is changed is the color of the cover of the plan from each of the companies seated at the table.

Mr. Tillerson, like BP, on page 11-6 of your plan, Exxon Mobil's Gulf of Mexico oil spill response plan lists walruses under sensitive biological and human resources. As I am sure you know, there aren't any walruses in the Gulf of Mexico; and there have not been for 3 million years. How can ExxonMobil have walruses in their response plan for the Gulf of Mexico?

Mr. TILLERSON. Congressman Markey, those response plans incorporate a number of broad-based studies, marine mammal studies, many of which are part of the EIS and EIA statements that are put together by the MMS; and much of the response plan and what is contained in it is prescribed by regulation, including the models that are used to project different scenarios for oil spills; and many of the statements and representations that are in the plans—

Mr. MARKEY. These are regional oil spill response plans. How can walruses be in a response plan for the Gulf of Mexico? This is a regional response plan—

Mr. TILLERSON. I understand your question.

Mr. MARKEY [continuing]. That the company has put together.

Mr. TILLERSON. And it's unfortunate that walruses were included, and it is an embarrassment that they were included, but that is part of a larger marine mammal study that is used in preparing regional response plans.

Mr. MARKEY. Mr. Mulva, your plan as well includes walruses. Mr. Watson, your plan has them on page 11-6. How do you respond to having walruses in your plan?

Mr. WATSON. I would respond in a similar fashion. The plan was put together in response to guidelines from the Minerals Management Service.

Mr. MARKEY. Do you agree that it is an embarrassment to have walruses in a response plan for the Gulf of Mexico?

Mr. WATSON. Certainly for the Gulf of Mexico it is not appropriate.

Mr. MARKEY. Mr. Mulva, do you agree it is inappropriate to have it in a plan for the Gulf of Mexico?

Mr. MULVA. I agree it is not appropriate to have include it for that region.

Mr. MARKEY. In your response plan, Mr. Tillerson, as well as some of the other plans, including ConocoPhillips, there is a Dr. Lutz who is referred to as an expert, a technical support person. Mr. Lutz died in 2005, 4 years before the plan was actually filed. How, Mr. Tillerson, can you justify in a response plan having a person who has been dead for 4 years? Is that also an embarrassment?

Mr. TILLERSON. Well, it is. But let me point out that Dr. Lutz is part of the University of Miami's Marine Mammal Research Division which has been an important resource for preparation of these plans for years. The fact that Dr. Lutz died in 2005 does not mean his work and the importance of his work died with him. There are many other individuals identified in the plan for contact and we need expertise—

Mr. MARKEY. I appreciate that. It is 2010. It is 2010.

Mr. TILLERSON. Those numbers are all valid that are in the plan.

Mr. MARKEY. It just seems to me that when you include Dr. Lutz's phone number in your plan for a response that you have not taken this responsibility seriously.

Mr. Mulva, the same is true for you. Is it an embarrassment to ConocoPhillips to have that as part of your plan?

Mr. MULVA. Well, the plans need to be updated more frequently. What's important is the institution. That's who we refer to for support. Obviously, it is embarrassing, but we really look towards the institution and not necessarily the individual.

Mr. MARKEY. It just seems to me that, for each of your companies, the only technology you seem to be relying upon is a Xerox machine to put together your response plans, that there wasn't enough effort put together to ensure that in the Gulf, if a catastrophe occurred, that you would be able to respond.

And you, Mr. McKay, in the first week, your company developed a document that showed that your range of possibilities for an accident was 1,000 to 14,000 barrels per day, and yet your company continually, in the first week, low-balled the number and said that it was only 1,000 barrels per day.

You are now estimating that it could be upwards of 40,000 barrels per day and you are today capturing 15,000 barrels per day of oil from that gusher. Are you ready to apologize to the American people for getting that number so wrong, having been so incompetent or deceptive to the American people that proper preparations were not put in place because of BP's low-balling of the actual amount of oil that was going into the Gulf of Mexico.

Mr. MCKAY. First, just to be clear, those were united—sorry, Unified Area Command estimates. They came from the 5,000 barrels a day, was an estimate done on April 26th by NOAA. Our input into that on the 27th, which was after that, was a range of 1- to 14,000 barrels per day. And our estimate, best estimate was above 5,000 barrels per day. But the unified command estimate was 5,000 barrels a day. We stuck with that. Information has been gathered as things have moved along, as we've gathered oil.

Mr. MARKEY. This document that I have is BP Confidential in the first week. It says 1,000 to 14,000, this is BP Confidential.

Mr. MCKAY. Right.

Mr. MARKEY. The onus, the burden, the responsibility, is on your shoulders. You had the technology. You were able through your expertise to make this determination. And I do believe that it is either deliberate deception or gross incompetence, because ultimately the amount of boom, skimmers, cleanup of the beaches and marshes, and rescue of birds and turtles, the capacity which you needed in order to capture the oil coming out of that spill, testing

for the health of the workers, it was all dependent upon how large the spill was.

Are you ready to apologize for getting that number so grossly wrong that the capacity of Federal and State governments to put in place a response was delayed because you did not do the job?

Mr. MCKAY. I will just reiterate what Commandant Allen said, is that those were not BP estimates, those were Unified Area Command estimates. We did provide——

Mr. MARKEY. They were your cameras at the bottom of the ocean.

Mr. MCKAY. That's true.

Mr. MARKEY. You got it wrong, Mr. McKay. Your company got it wrong. BP got it wrong.

Mr. MCKAY. We have provided every bit of data we've got into the Unified Area Command with government scientists and government MMS, NOAA, Coast Guard to help them understand what data we have.

Mr. MARKEY. On the day, Mr. McKay, that you are ready to apologize——

Mr. MCKAY. What's that?

Mr. MARKEY. On the day that you are ready to apologize, that is the day that we can begin to move forward and put together the kinds of plans that make sure this never happens again. It was BP's spill, but it was America's ocean.

Mr. MCKAY. We——

Mr. MARKEY. We need you to admit that you knew or should have known very early on that this was not a spill of 1,000 or 5,000 barrels per day. They were your cameras, your technology, your expertise that the American people were relying upon, and you got it completely wrong, either in order to limit your liability or out of incompetence. But the ultimate impact on this region of the country is profound and will last for a generation.

Please, one final chance; apologize for getting that number wrong.

Mr. MCKAY. We are sorry for everything the Gulf Coast is going through; we are sorry for that and the spill. What I can say is we have provided every bit of data and information we have to the unified command, to the government, to every scientist that's working on this full time, and from that day you're talking about. So we do not have the technology to measure that. That is still under evaluation.

Mr. MARKEY. I continue to believe that BP is still more interested in its liability than it is in the livability of the gulf, and this hearing is just one further indication of that.

My time has expired. Let me turn and recognize the gentleman from Michigan, Mr. Upton.

Mr. UPTON. Thank you. Mr. McKay, you indicated BP is looking to pay all legitimate damages. Are you willing to put into an escrow account enough money to pay for such damages as might be expected?

Mr. MCKAY. Well, we've been very, very clear from day one that we, as a responsible party under OPA 90, we are going to be responsible and living up to the responsibilities of OPA 90. I cannot comment on whether there will be a fund set aside or not. We've

made it clear that the company stands behind these commitments. We have a strong balance sheet and we have a strong company. We intend to stand behind those.

I cannot commit today, one way or the other, whether a fund would serve that in furtherance.

Mr. UPTON. So that's a "no" at this point.

Mr. MCKAY. I can't comment yes or no.

Mr. UPTON. I thought the buck stops there.

Mr. MCKAY. We've—what we've said, we will honor all legitimate claims; and the full company stands behind that.

Mr. UPTON. Have you asked the Federal Government for any help that you've not received?

Mr. MCKAY. Not that I know of.

Mr. UPTON. What grade would you give the administration in its efforts to stop the spill?

Mr. MCKAY. We've been cooperating in every way we know how with the administration and—

Mr. UPTON. A, B, C, D?

Mr. MCKAY. I can't give a grade. This has been a unified command that we've been a participant in with many government agencies. Industry, we've got 150 companies working on this. I can't comment on a grade of individual components of that.

Mr. UPTON. Of your counterparts that are at the table, have any of them—are you working with any of them to try to stop the leak?

Mr. MCKAY. Yes, all of these companies have been tremendously supportive and helping us.

Mr. UPTON. Question for all of you, as you do drills—drilling across the world, which country has the toughest regulations that enforce those regulations and what—and if that country gets an A, where would you put the U.S. with the enforcement by the MMS? Mr. Tillerson.

Mr. TILLERSON. Well, I think the United States and the North Sea countries have the most mature regulatory structure around offshore drilling activities, because that's where it has taken place the longest. I can tell you those standards didn't get taken to countries that have not established a regulatory structure. And the same standards are applied everywhere.

Mr. UPTON. So the same standards are in the gulf as they are in the North Sea?

Mr. TILLERSON. By and large they are the same. For ExxonMobil we take what we believe to be the best practice, the best, and then apply that globally, because it really doesn't matter where you are. If you have a well-controlled incident, you need to use the best you have everywhere in deepwater drilling. It is not an area where you make some distinction, I'm going to cut a corner in this country because I can.

Mr. UPTON. Well, I know in the North Sea when they had the accident, I think it was back in 1988, and 100-some folks—180 as I recall—

Mr. TILLERSON. Piper Alpha.

Mr. UPTON. Right. The changes were made in essence to split the MMS, or split the enforcement agency, similar to what the administration is now proposing in the MMS. So that is a better system than what we have in the United States, right?

Mr. TILLERSON. I don't know the structure is as important as the competency and the process by which the oversight occurs.

Mr. UPTON. Mr. Watson.

Mr. WATSON. I'm not sure I can grade all the differences across the jurisdiction.

Mr. UPTON. I just want to know what model should we be looking at with the enforcement.

Mr. WATSON. We start with the regulations in each country and then we apply our standards on top of those regulations, and they are very similar. The application of our processes and procedures are very similar in all the countries. Where there are particular requirements in a particular country, we of course comply with those. Our view is certainly that the U.K. And the U.S. have very high standards.

Mr. UPTON. Mr. Mulva.

Mr. MULVA. The greatest part of our experience and operation has been in the North Sea, particularly Norway and the United Kingdom. And Norway and the United Kingdom, especially developed some of the best practices that are applicable and used around the world. So it is based on our experience for many—several decades, those best practices and oversight review have been applied and used in the industry and other places in the world. So I would say that they rank right up at the top in terms of the capability and development of practices.

Mr. UPTON. Mr. Odum.

Mr. ODUM. Similar answer in that I think the U.S. does have one of the most comprehensive set of recommendations for the industry in the world. There are—you can find other areas where a particular regulation may be more stringent than what you see in the U.S. The important part for us as a company is going back to what I called in my testimony our global standards; how we do things everywhere. Those often exceed the regulations in any country.

Mr. UPTON. Mr. McKay.

Mr. MCKAY. Yes, I would agree with that. The standards are similar in many places, with some specific differences, but the U.S. has a strong set of standards.

I would add a comment that I think learning what we are learning through this will augment some of those standards and would be helpful.

Mr. MARKEY. The gentleman from Michigan's time has expired.

The chair recognizes the chair of the full committee, the gentleman from California, Mr. Waxman.

Mr. WAXMAN. Yesterday, Chairman Stupak and I sent a letter to Tony Hayward, the CEO of BP, and the letter raised questions about the design and the safety decisions made by BP at its Macondo well. The letter describes a series of decisions that BP made that seemed to increase the risk of catastrophic blowout. I'd like to ask each of you whether you think mistakes were made by BP. Mr. Tillerson.

Mr. TILLERSON. Well, in reviewing the letter that you both sent, it appears clear to me that a number of design standards were—that I would consider to be the industry norm were not followed.

Mr. WAXMAN. Let me go through this, if I could, quickly. You think that they made mistakes. The answer that you would give would be "yes."

Mr. TILLERSON. We would not have drilled the well the way they did.

Mr. WAXMAN. How about you, Mr. Watson?

Mr. WATSON. We just had a chance to take a look at your letter. It is quite lengthy, of course, with a number of detailed comments. Our experts are taking a look at it. I've read it myself. And from what I have seen it is consistent with what the Joint Industry Task Force found that there—we have an opportunity to raise the bar, if you will, on standards in the industry. And it certainly appears from your letter that not all standards that we would recommend or that we would employ were in place.

Mr. WAXMAN. Do any of you disagree with the statement that BP made mistakes?

Mr. ODUM. It is not a disagreement, it is just confirmation that—don't have all the information, but from the information that was in your letter and what we know about the well, a similar statement that it's not a well that we would have drilled with that mechanical setup, and there are operational concerns.

Mr. WAXMAN. Mr. Watson, you're quoted in the Wall Street Journal saying this incident was preventable. What mistakes did BP make that you would not have made?

Mr. WATSON. First, we would say that as we look at this incident, we need to let the investigation run its course. What we have done is, since the first days of this investigation and this accident, we've participated in the Joint Industry Task Force where the industry—

Mr. WAXMAN. You made the statement. You were quoted as saying this incident was preventable.

Mr. WATSON. Yes.

Mr. WAXMAN. What would you have done differently to prevent the disaster that we have now encountered?

Mr. WATSON. There are several areas that appear, based on the information we have seen in the Joint Industry Task Force, based on the information we've been able to gather, that suggests the practices that we would not put in place were employed here.

Mr. WAXMAN. Specifically?

Mr. WATSON. For example, the casing design and mechanical barriers that were put in place appear to be different than what we would use.

Mr. WAXMAN. Geren McKett, head of Chevron's exploration and production unit, said in the Wall Street Journal that Chevron uses a safer well design. Can you tell us why the Chevron well design is safer than BP's?

Mr. WATSON. It is the two characteristics that I commented there, on top of what we think are effective procedures and other authorities that we have in place that would have prevented this incident.

Mr. WAXMAN. Well, in the well design, BP had a choice of two primary options. It could lower a full stream of casing from the top of the wellhead to the bottom of the wellhead, or it could hang—could hang a liner from the lower end of the casing already in the

well and install a tie-back on top of the liner. BP plan review recommended against the full string of casing because it would create an open annulus to the wellhead and make the seal assembly of the wellhead the only barrier to gas flow if the cement job failed.

Would you have chosen the other option and do you choose the other option in your wells?

Mr. WATSON. We would not have run a full string.

Mr. WAXMAN. You would not have. OK.

Mr. Tillerson, you made a similar claim today. You testified that, "What we do know is that when you properly design wells from the range of risk anticipated, follow established procedures, build in layers of redundancy, properly inspect and maintain equipment, train operators, conduct tests and drills, and focus on safe operations in risk management, tragic incidents like the one in the Gulf of Mexico today should not occur."

Mr. Tillerson, you've said that this blowout would not have happened if ExxonMobil had been drilling the well. Tell us what you would have done differently, and please be specific.

Mr. TILLERSON. Well, it would have been a different well design. We would have run a liner, a tie-back liner, we would have used a different cement formulation, we would have tested for cement integrity before we circulated the kill-weight mud out, we would have had the locking seal ring at the casing hanger before proceeding.

And leading up to all of that, though, there was clearly—and this is just based on what has publicly been made available—there were clearly a lot of indications or problems with this well going on for some period of time leading up to the final loss of control. And why those—why—how those were dealt with and why they weren't dealt with differently I don't know. And we don't have all the information, so I want to echo what Mr. Watson said there. We do—are very interested, as I said in my remarks, want to see the full investigation because we want to understand was there something else people were looking at that caused them to make the decisions they made as opposed to making the decisions that almost any of our drilling operations people would have made differently that led to the ultimate loss of the well.

Mr. WAXMAN. Thank you. My time is running out. Let me make just make a statement, Mr. Chairman. I would feel more confident in these assurances if I didn't realize that each of the oil spill response plans from the companies are virtually identical to BP's.

You say you would have done things differently. I would think, certainly in retrospect, that's a statement you would certainly make. I hope that's true, but the record does not support that the other companies here today have been more prepared than BP, and their plans were the same.

So I thank you for your testimony. We've got to learn from this experience and move on, but we really have to learn that these things have to be thought out and the plans should not just be cookie-cutter plans. Thank you, Mr. Chairman.

Mr. MARKEY. The chairman's time has expired. The chair recognizes the ranking member of the full committee, the gentleman from Texas, Mr. Barton.

Mr. BARTON. Thank you, Mr. Chairman. The stakes are a lot higher and the consequences are much more dire, but this reminds me a little bit of a Monday morning call-in radio talk show after the Redskins have blown another one. Everybody has an idea of what should have been done and now that they know what was done, and it wasn't done properly, they are much smarter than the coach on the field and the quarterback on the field at the time.

So it is very easy to second-guess and to point out the problems. There is kind of good news, bad news. The bad news is that I agree with Chairman Waxman. Judgment calls were made that now that we're—now that we know what happened, that those were the improper judgments. That's bad. That's bad. But the good news is—and this is what our industry CEOs are saying, I think, is that it is preventable.

I don't know what this task force is going to recommend that Mr. Tillerson has alluded to, but if the recommendation is that best practices on these deep wells ought to have these double sleeves, I think we could put that into a regulation if we need to. If the best practice is you ought to put the lock-out collar on the well before you do the final cementing job, I think that is something that can be done. If the best practice is that we ought to really focus on degassing the mud before you recirculate it and do that final stage, when this accident occurred, I think we'll go along with that. These are not huge, technically complex; we just don't know how to solve that particular problem. So that's the good news.

Now my first question is to the CEO of British Petroleum or the President of British Petroleum USA. Has the Federal Government suggested, told, asked, that you do anything that you just flat said no to? In other words, have they proposed some solutions that you've turned down? In hindsight, if you had just done what you were told to do, that the well wouldn't continue to be leaking?

Mr. MCKAY. No, I don't know of any solutions that have been proposed that we haven't—haven't done.

Mr. BARTON. And it is BP's responsibility for the well. I mean you are the owner of the well, but in terms of mitigation, in terms of cleanup on the beaches, did BP tell the President of the United States that we shouldn't let the Louisiana people go out and do those sand berms?

Mr. MCKAY. What we—no, what we've always said is what we're trying to do is work through unified command, and decisions for operational matters like that go through unified command. They did go through unified command, and we agreed once we were—that was a unified command decision to go forward.

Mr. BARTON. Are any of you gentlemen here because you were subpoenaed?

Mr. MCKAY. No.

Mr. BARTON. You're all here voluntarily. You've chosen as free citizens to come and answer any question that any member of this subcommittee has; isn't that correct? In terms of BP, this television camera that's showing the oil, isn't that your television camera?

Mr. MCKAY. That's—that's the remote operated vehicle cameras that are contracted.

Mr. BARTON. But you're providing it—

Mr. MCKAY. Right.

Mr. BARTON [continuing]. Voluntarily. I think at Chairman Markey's suggestion or request, but you haven't been told by Federal law you have to do that?

Mr. MCKAY. No. We agreed with Department of Interior, MMS, Coast Guard and others to supply right off the bat, but we have responded to requests to open that up to the public and other congressional Members.

Mr. BARTON. Now I want to ask this question to ExxonMobil and to Chevron. If we were to maintain the so-called temporary moratorium in the deep OCS, how does that affect your decision on how to get the energy that America needs to America? Do you just sit on your hands and hope that the moratorium goes away, or look for that energy somewhere else, or perhaps even import it from somewhere else?

Mr. TILLERSON. Well, we will redirect our human resources, the technical talent, to other parts of the world where we are allowed to work, and we will redirect the rigs and the equipment elsewhere. The stuff is too expensive to just let sit around.

Mr. BARTON. What does it cost per day?

Mr. TILLERSON. The spread rate on a typical deepwater well is about a million dollars a day.

Mr. BARTON. Mr. Chevron, do you echo what Mr. Exxon just said?

Mr. WATSON. Yes, we have three deepwater rigs right now, two of which were operating at the time of the incident, an additional one that came in, and the costs are similar to what Mr. Tillerson mentioned. And we will redeploy people and redeploy rigs if we are unable to put them into service.

Mr. BARTON. Now, I am told that the Chinese oil companies are drilling off the coast of Cuba, which means they are drilling off the coast of Florida. Do any of you gentlemen have reason to believe the Chinese oil companies are safer and more concerned about safety and the environmental protection than U.S. oil companies? Anybody?

Mr. WATSON. I can't speak for those companies. I'm sure they are committed to safe operations.

Mr. BARTON. Have they done anything more innovative than the United States oil companies have? Have they led the way in any area that you're aware of?

Mr. WATSON. I'm not aware of that.

Mr. BARTON. OK. Last question. We've heard a lot in the scientific community about new ideas to—once you have an oil spill, to insert natural organisms that biodegrade and turn it into non-harmful substances. Would any of you care to comment on—we want to prevent the spill. If we can't prevent it, we want to stop it. But if you have one, is there hope that someday we'll have organisms that biodegrade the oil very quickly so it doesn't harm the economy—the environment? Anybody?

Mr. TILLERSON. I would only comment, Congressman Barton, that in effect that's part of what the dispersant action does is to reduce the oil to very small droplets within the natural microorganisms that exist in the marine environment are able to break that down more quickly. There has been a lot of discussion about the dispersants, but the dispersants have been tested and are actually

less toxic than detergent soap which you would flush down your sink every day.

Mr. BARTON. I want to thank Chairman Markey for his discretion in letting me go over. And let's work together to stop the spill, figure out a way to prevent it in the future, and keep our industry and environment safe and growing. Thank you, Mr. Chairman.

Mr. MARKEY. Thank the gentleman. The chair recognizes the gentleman from Michigan, the chairman emeritus of the committee, Mr. Dingell.

Mr. DINGELL. Thank you, Mr. Chairman.

Gentlemen, yes or no, each if you please. You have seen—well, this document which is the Department of Interior's increased safety measures for energy development in the Outer Continental Shelf. Do any of you have any objections to the recommendations contained therein?

Mr. TILLERSON. Congressman Dingell, I've looked at the document and the task force that John Watson has referred to had significant input to the DOI's consideration. As I've looked at specifics of what's in there, there are some areas where I am concerned that they may be actually introducing more risk in their effort to improve the safe operation. They may actually be increasing the risk in some areas.

So we want to have a thorough discussion with them and others around what risk are we trying to mitigate and is this actually going to accomplish that, or in effect are we increasing risk in the operation. And again that—I think it is a very good document, it is a very good start. Most of it we would strongly support. A lot of it we're already doing. So it is not going to be a difficult compliance issue for us, but there are some areas in there that I do have some concerns about.

Mr. DINGELL. Does that, gentlemen, generally address your feelings? Each?

Mr. WATSON. Yes.

Mr. DINGELL. Thank you. I note—and this would be of concern here, I think, to Mr. McKay—the Deepwater Horizon blowout preventer contained a single set of blind shear rams. These blind shear rams were supposed to cut through the pipe in the case of emergency and stop the flow of oil and gas into the water. The blind shear rams obviously failed to carry out that function.

Do you support the idea that we should have double or redundant blind shear rams?

Mr. MCKAY. We have—we have recommended that the design of blowout preventers should be evaluated based on what we learned here and potentially additional redundancy, yes.

Mr. DINGELL. Now, again if you please, Mr. McKay, how many vessels do you have down there in the area of the spill to collect the oil that is retrieved? Do you have one, do you have several? Do you have more on the road? Are you going to run out of capacity to receive the oil that you are retrieving?

Mr. MCKAY. We have two, as of today, receiving oil. But we have several that are being outfitted to arrive on location in the next couple of weeks, two more. And then we have an additional two on the way that should be outfitted and functional potentially by mid-July. Obviously, that's not counting skimmers and other vessels

picking up oil that's on the surface, but in terms of taking production off the well, we'll have up to roughly six that would take direct production in the very near future.

Mr. DINGELL. I note you are, however, burning or were burning some of the retrieved oil for want of space or capacity to handle it. Is that still going on?

Mr. MCKAY. The offshore burning occurs when there is enough oil in an area to boom and burn and when weather conditions permit. That's under the Unified Area Command. We will have a vessel called the Helix 4000 on location, and working, hopefully today, that will be burning oil that is produced up to that vessel.

Mr. DINGELL. Now, gentlemen, you are supposed, I believe, to have a plan to address spills or catastrophic events. I'm assuming that each of you do. What is the date—well, first of all, is that plan for the whole of your operation or is it for item by item or specific site by specific site? Starting with Mr. Tillerson.

Mr. TILLERSON. There's a gulf regional plan and then with each well, when we permit the well, there would be a plan to support that well's activities and operations. I think the aspect of the plan, the cookie-cutter characterization should not come as much as a surprise, because the industry has relied upon sharing of resources, boats, booms, skimmer equipment. And working with the Coast Guard and Federal agencies, what we really should have is a unified plan, because it doesn't matter whose well has the problem; when it has the problem, we need to be able to respond with everything we have available. So those plans look the same because in fact they call upon the same resources to respond.

Mr. DINGELL. Now, gentlemen, would each of you submit the date of those plans so that we could know—you don't have to do it now, I'll ask that be inserted in the record.

Now, I am troubled here that everybody is blaming the administration for the events that are going on down in the gulf area. I am curious. What is the practice, if you please, starting, Mr. Tillerson, with you; does the Federal Government take over when there's a spill and cleanup or is that the responsibility of the operator?

Mr. TILLERSON. Well, the Coast Guard has command of the incident after you have the spill. The responsible party then works in the unified command structure with the Coast Guard on the spill response. So the Coast Guard does ultimately make final decisions on your actions. Your actions have to be approved by the Coast Guard, but it is very much done, obviously, in a joint fashion. And the Coast Guard makes determination of when certain cleanup activities should be undertaken, how they should be undertaken, and when you should stop.

Mr. DINGELL. Now, Mr. McKay, do you agree with that statement?

Mr. MCKAY. I do. The incident commander is the Coast Guard, and final decisions are by the Coast Guard under that incident command structure. But I also agree with the statement that much of this is collaborative in terms of decision making, but the final decisions for deployment or resources is with the command—

Mr. DINGELL. If you please, Mr. McKay, in the case of the event we're discussing here, has the Coast Guard made any recommendations with which BP did not agree?

Mr. MCKAY. I think—no, I don't think there have been any recommendations that BP did not agree. The decisions have been effectively worked together for the uniformed structure and the major decisions have occurred under that structure and with our support.

Mr. DINGELL. Was there any—has there been any conflict between the administration and BP with regard to the cleanup that has been going forward?

Mr. MCKAY. On spill response within the unified command structure, there have been debates about deployment, and when, and where, and how, and that's part of the command structure. But I think all the major decisions that have been made have been supported by BP.

Mr. DINGELL. Now, is it your view that the government should take over the cleanup, or is it your view that that should remain as it is now, or should it be the principal and sole responsibility of the operator or the holder of the lease?

Mr. MCKAY. I think overall, the command structure and the way the National Contingency Plan as well as the Gulf of Mexico plans work is effective. I think this actually—I understand everyone's frustration with how long this is taking, but the spill response has actually been pretty effective in terms of dealing with it on the water. It is unfortunate we can't get it stopped at the source right now. We're doing everything we can to do that. But I think the command structure has actually been functional, and the spill response plans have been leaned upon and have been the foundation of that.

Mr. DINGELL. Now, in one recommendation that the Secretary has made, he recommends that there be the finalization of a rule that would require the operators of drilling wells to develop robust safety and environmental management systems for offshore drilling operations. In 2009 when this was first proposed, the Offshore Operators Committee and the American Petroleum Institute raised concerns about—I believe, gentlemen, you are all members of both bodies. Would you support—is there anyone at the table who would not support the finalization of that rule?

I notice, Mr. Tillerson, you have got the same problem I do. I'm not coming through very well, I'm afraid.

Mr. WATSON. Just want to be clear what you're referring to, Congressman.

Mr. DINGELL. Would you support the finalization of that rule, sir?

Mr. TILLERSON. I'm not sure I'm clear on exactly what rule you're referring to, Congressman.

Mr. DINGELL. Well, the Secretary, one of his recommendations is that the finalization of the rules required drilling—rather, operators of drilling wells to develop robust safety and environmental management systems for offshore drilling operations.

My question to you gentlemen of the panel is: Would you support such recommendation? That's known as the SEMS rule.

Mr. TILLERSON. I'd have to go back and look at the specifics, Congressman, quite frankly. I don't remember enough of the details. I'm sure—we were concerned with it.

Mr. DINGELL. Would you each, gentlemen, please submit your comments on that point to the committee as to whether you would support that or not.

Mr. Chairman, I thank you for your courtesy and, gentlemen, thank you for your kindness.

Mr. MARKEY. I thank the gentlemen. The chair recognizes the gentleman from Texas, Mr. Burgess.

Mr. BURGESS. Thank you, Mr. Chairman. Let me just go back to a question I posed—to a rhetorical question I posed in my opening statement. Everyone in the panel before us, with the exception of Mr. McKay, let me just ask you a question. Is there any idea that you have at this point that would stop that leak from occurring in the Gulf of Mexico? Is there something you could share with us this morning that has not been done or tried that will bring a conclusion, a rapid conclusion to this? We know BP doesn't have that idea; do any of the rest of you?

Mr. WATSON. We provide our experts to assist, Congressman, and I'm not aware of any ideas beyond those have been employed or that we've—

Mr. BURGESS. No ideas have suggested that haven't been taken up. Now, again, with everyone, with the exception of Mr. McKay, we know that BP has not been to the White House to talk to the President. Have any of the rest of you had conversations with the White House about the management of this situation in the gulf?

Mr. Tillerson? That's an affirmative answer?

Mr. TILLERSON. I've had very brief conversations.

Mr. BURGESS. With the President himself or with his advisors?

Mr. TILLERSON. Both.

Mr. BURGESS. Any of the rest of the gentlemen?

Mr. WATSON. I've had a very brief conversation, but not with the President.

Mr. BURGESS. Let me ask you a question. A week ago we went down to the gulf and had testimony on a field hearing on Oversight and Investigations. We heard from two of the ladies who lost husbands on the rig. Mr. McKay, you were present at our first hearing on Oversight and Investigations, I didn't get a bit of information that day from yourself, Transocean, Halliburton, and the blowup protector manufacturer was here. I learned a lot more from those two ladies talking about e-mails they'd had with their husbands, phone calls they had with their husbands, discussions they had with their husbands back home when they came home for visits. And it seemed to be there was a lot of concern about things that were happening on the rig.

Now, I've never walked on a deepwater rig. Have any of you worked on a rig?

Mr. TILLERSON. Not a deepwater rig, but I worked on rigs earlier in my career.

Mr. BURGESS. Well, let me just ask you a question. Is that unusual? I mean, I go home and complain about Mr. Markey a lot, but is this unusual to have that level of anxiety that these gentle-

men were sharing with their wives about the safety conditions on an offshore rig?

Mr. TILLERSON. Well, Congressman, I have—I haven't looked at their testimony in detail so I can't comment directly to that. What—as I commented, there were certainly some things going on with this well in the days and hours prior to the loss of control that we're interested to understand, and it is incomplete at this point. So I can't really say.

Now, what I would say, that well control is part of drilling; that's what drilling operations are about. You are trying to drill into the forces of Mother Nature and hold that back in a controlled fashion until you can then secure it. And so it is common to be dealing with well control issue on a well—in a routine manner.

And the reason you have the well design, and the layers of redundancy, and all the safety equipment and the training, is so you can deal with those. It is not uncommon to take a gas kick in a well and have to circulate that kick out in a controlled fashion and restabilize the well to continue your operation. To do that you have to have good well bore integrity, and good equipment, and people that know what they are doing.

And that's why in my testimony I said when you have those things, you can deal with well control issues and maintain the integrity of the well and not lose control of the well and have what's happened out there.

Mr. BURGESS. Have any of you ever ceased operations on a well because it was difficult to control?

Mr. TILLERSON. Yes.

Mr. BURGESS. Or you didn't feel like you had control?

Mr. TILLERSON. Yes.

Mr. BURGESS. The answer is yes? So that does happen.

Mr. WATSON. Certainly—

Mr. BURGESS. Who would generally make that call? Would it be—in the case here, would it be Transocean or would it be BP, the owner of the platform or the driller?

Mr. TILLERSON. Well, we as the owner of the well or the operation would make that decision, and depending on what the severity of the issue was and what was at stake, it would be made by a line manager somewhere in the drilling organization. But there has been at least one instance that came all the way to my level.

Mr. BURGESS. Mr. Mulva, let me ask you a question, because in your testimony you talked about natural gas and the use of natural gas as one of those bridge fields to the future. And yet we can extract a lot of natural gas on land where it is not an issue with drilling a mile down in the gulf, but we also have issues of where that drilling is occurring because now it is occurring closer and closer to civilization, and sometimes right on top of civilization.

Mr. Tillerson mentioned the loss of the public trust with the energy industry. What are you doing to create the best practices so that people on land who are nearby to the gas drilling operations can have the comfort that their safety is protected, that they are not being exposed to benzene and hexane, that the fracking fluid is not going to contaminate their water wells? How are you taking a leadership role in the industry to be certain that those things are being handled appropriately?

Mr. MULVA. We have a great deal of experience as a company and as an industry and we share those practices, but it all goes back fundamentally to how you plan and design and execute and drill those wells. Also, it is most important how you develop the infrastructure so as you develop the gas and you bring it to the marketplace, that that's done through the infrastructure and pipelines in a way that's very secure and safe.

We really feel that by doing this in a proper way, meaning the plan and design, and we have many, many decades of experience, that this can be done. And there is nothing really that unique from a technological point of view of our ability as an industry to develop the gas resources, whether you call them nonconventional or conventional resources that can be developed in North America. It is a tremendous resource. Our country is blessed with natural gas. It is not just a transition fuel, it is an integral part of the energy supply that we're going to need for our society and for our economy.

Mr. BURGESS. I may have some additional questions for you on that issue, and I would appreciate you working with our office so that we can be confident of those best practices; because I will just tell you, in my neighborhoods you may not—it may not be as secure as you think.

I yield back, Mr. Chairman.

Mr. MARKEY. We thank the gentleman.

The chair recognizes the chairman of the Oversight and Investigations Subcommittee, the gentleman from Michigan, Mr. Stupak.

Mr. STUPAK. Thank you, Mr. Chairman.

Mr. Waxman and I sent that letter yesterday and Mr. Tillerson responded a little bit to it. And we talked about the five areas where we feel BP should have done things differently to get control of this well. In fact, they used the word "nightmare well" in one of the e-mails that we looked at and put in our report.

I was struck, Mr. Tillerson, you indicated in your testimony, based on the industry's extent of experience, you state that what we do know is that when you properly design wells with the range of risk anticipated, follow the established procedures, build in layers of redundancy, properly inspect and maintain equipment, train operators, conduct tests and drills, and focus on safe operations and risk management, tragic incidents like the one we're witnessing in the gulf today should not occur.

And I mention that because in today's Post, the exact same words are there, exactly the same as your testimony, but it is attributed to Kenneth P. Cohen, ExxonMobil's vice president of public and government affairs.

And in my opening statement I mentioned how in your 500-page response, 40 is on press, and that you all stay on script. I have got to compliment you, you're all on script, you're using the same words. Those are problems with the well, as Mr. Waxman pointed out in his testimony.

So what about—are you all on script that if it wasn't BP but one of you, one of your companies, if that was you and the blowout happened on April 20th, if you had received a call that there was a subsea blowout at your well instead of BP's, would you have been prepared to stop the leak and prevent oil from reaching the sensitive coastal areas?

So would your company have been ready, Mr. Tillerson?

Mr. TILLERSON. We would have been ready to implement our oil spill response plan.

Mr. STUPAK. That's the 9-page plan, right?

Mr. TILLERSON. That's the 500-page plan you referred to.

Mr. STUPAK. OK. There's only 9 on oil removal, 40 on media, 9 on oil removal. So that 9 pages would have been able to prevent the oil from hitting the gulf shores?

Mr. TILLERSON. The 9-page plan would have done what the 9-page plan says it is intended to do. And it says "to the maximum extent practicable."

Mr. STUPAK. How about you, Mr. Watson?

Mr. WATSON. I would say, Congressman, that our emphasis is on prevention of that spill. You were talking about—

Mr. STUPAK. Sure, but let's say this. You got the call, your well just blew, what would you have done?

Mr. WATSON. Before the incident?

Mr. STUPAK. Yes.

Mr. WATSON. We would have exercised a stop-work authority. We have rigorous stop-work authority, not only written down, but we use stop-work authority.

Mr. STUPAK. But your well blew up, so what would you do?

Mr. WATSON. We would activate our spill response plan.

Mr. STUPAK. That's about 5 pages I think in your proposal, right? To remove the oil?

See my concern is, Mr. Tillerson, Mr. Mulva, Chevron and Shell's worst-case scenario is 200,000 barrels per day in their response plan. ExxonMobil's is 166 barrels per day. That's a lot more than what's currently leaking out into the gulf. So on paper, these plans— and you are all going to rely on these plans—might seem reassuring, but reality shows you can't prevent the oil from reaching the gulf shores.

So Mr. Tillerson, ExxonMobil states in its response to the pre-hearing questions that ExxonMobil is prepared to meet all the commitments in its permits, including those involving the worst-case scenario. So do you stand by that statement?

Mr. TILLERSON. I do, because the permit does not guarantee that the oil will not get to the shore, nor does it guarantee that it will all be contained.

Mr. STUPAK. We're at, what? At most, 40,000 barrels today?

Mr. TILLERSON. I don't know.

Mr. STUPAK. Forty thousand, I think is what we've been saying for the record. So ExxonMobil's worst-case scenario is over 160,000 barrels per day. So how can you say that you would be able to control a spill that's four times bigger than the current spill, using the same plan BP has, with the same contractor BP's using?

Mr. TILLERSON. As I said, Congressman, we would use the response capability to the maximum extent practicable and in the models that we provide as part of the permitting which are in conformance with what the regulatory bodies require—

Mr. STUPAK. Your plan is written by the same contractor that BP's is. BP relied on Marine Spill Response Corporation to provide response equipment, and so does your plan. So if you can't handle 40,000, how will you handle 166,000 per day as you indicate?

Mr. TILLERSON. The answer to that is when these things happen, we are not well equipped to deal with them.

Mr. STUPAK. So when these things happen, these worst-case scenarios, we can't handle them, correct?

Mr. TILLERSON. We are not well equipped to handle them. There will be impacts as we are seeing. And we've never represented anything different than that. That's why the emphasis is always on preventing these things from occurring, because when they happen, we're not very well equipped to deal with them. And that's just a fact of the enormity of what we're dealing with.

Mr. STUPAK. But they do happen.

Mr. TILLERSON. It just happened.

Mr. STUPAK. And in an answer to Mr. Waxman, you said yep, it's cookie-cutter plans, and we call upon the same resources. The resources for BP are not enough, so no matter which one of the oil companies here before us had the blowout, the resources are not enough to prevent what we're seeing day after day in the gulf, not only the loss of 11 people, but we're on, what, day 56 or 57 of oil washing up on shores. There is no other plan. There is no way to stop what's happening until we finally cap this well, correct?

Mr. TILLERSON. That is correct.

Mr. STUPAK. But for the grace of God there goes I, right? It's BP this time; it could be Exxon Mobil tomorrow, it could be Chevron tomorrow.

Mr. TILLERSON. Not if we follow our practices and procedures it won't be.

Mr. STUPAK. But if it does, we can't handle it—we can't handle the spill. This worst-case scenario is pie in the sky, and oil in our water and on our shores.

Mr. TILLERSON. It is a scenario that the MMS and Coast Guard require us to calculate using their methodologies. That's why it is in there. I see your point, and I think that's all that matters, is the point is we have to take every step to prevent these things from happening, because when they happen it is a fact that we're not well equipped to prevent any and all damage. There will be damage occur.

Mr. STUPAK. We satisfied the application, but in reality we can't respond to a worst-case scenario.

Mr. TILLERSON. We are responding, a response is underway, it is having some effect as if there were no response. But there is no response capability that will guarantee you will never have an impact. It does not exist and it will probably never exist.

Mr. STUPAK. Nor do you have the ability to respond to the worst-case scenario. If we can't handle 40,000, how can we handle 166,000?

Mr. MARKEY. The gentleman's time has expired. The chair recognizes the gentleman from Illinois, Mr. Shimkus.

Mr. SHIMKUS. Thank you, Mr. Chairman. I'm handling the tack a little bit different. I have 3,000 Facebook followers. I posed a question, I'm going to get a chance to visit with you all today.

I have 22 questions and responses. We chose five of them, and I will kind of weave them into some of the things we have already heard in question and answer and in the testimony.

The first one is from Randy from Greenville. He says, What will be the impact on the U.S. economy by stopping offshore drilling?

If I were to answer him saying that the moratorium is idling 33 rigs which affect 46,500 direct jobs, 330 million in lost wages, and if it goes for a 6-month moratorium, that would be about \$10 billion to the Federal Treasury. Would that be—would that be numbers that would sound correct? I know some of you have actual drilling rigs, but I'm seeing some nodding.

The second question is, We haven't heard anything directly from the workers on the rig that saw what happened. That's why I was talking to my good friend Mr. Scalise.

Brian from St. Louis says, I want them answering questions in front of congressional panels. I've heard nothing but the story that some methane gas came up through the line.

Now, I know at the field hearing last week, they did have the widows, and Mr. Scalise mentioned the compelling testimony. I think during that testimony also, the widow said we need to be drilling. And I think what we're learning is there is lost livelihood on the coast because of the environmental disaster. We need to be careful not to compound that loss of jobs and an economy by shutting down operations right now. So that's my response to Brian.

Another Brian from Ettersville says, What types of regulations would have prevented another tragic incident like this from occurring? Also, what do you suggest we do regarding forming emergency response teams for disastrous magnitude?

My friend Michael Doyle mentioned how long it took to get a response team to Pennsylvania. I would ask that in this emergency best-practices thing that we're reviewing, that we start the industry talking about a consortium of emergency response team that we can mobilize.

Obviously, this is bigger than anything we would have projected. I think Mr. Stupak was also highlighting that even in the emergency response plans, we are projecting billions of barrels. This is something that we had been overwhelmed. So part of that planning I would suggest that we do in forming an emergency response team. Hopefully this will never happen again, but it would be nice to have if we're in that venue.

Doug Oyster from Collinsville, my home town of Collinsville, says—talks about—we have a ConocoPhillips refinery locally in my area, I'm very proud of it. He mentions a refinery fire but it was contained. He says, What risk do we face on land-based facilities as well?

And I think what the story that's not told, and Joe Barton's mentioned this a couple of times, that you're in the deepwater because that's where major oil finds are. And I have marginal oil production in southern Illinois and it is about a barrel a day. We still produce, we're the tenth leading State, but it is not very much and we're proud of what we get out of the ground.

But Mr. Mulva, since I've been to the refinery there numerous times, one thing that is important if we're talking about all of the above energy strategy, I'll talk climate—I'll fight this climate debate another day—but we can agree on North America energy independence. And what your refinery is doing in the St. Louis metropolitan area is bringing tar sands oil down through a pipeline that

can be refined in the Midwest so that we will be less dependent on imported crude oil, and we may not have to be in places that are tough. So that's a shout-out.

I've also talked to this committee numerous times about coal to liquid technologies, using the Fisher Tropsche techniques. That would be another way to displace our reliance on imported crude oil. And so that expansion for this heavy Canadian sand crude oil—right now, there are 2,500—at the peak. There were 4,000 construction jobs on an average of \$67,000 salary per year, I think 10 different unions building. That's the importance of the fossil fuel sector in this country. They are good paying, big number jobs. I've always used your refinery there and the Prairie State Coal Firepower plant we're building in this economy to have still on site, in addition to 2,500 jobs. That's energy security. That's not including the 750 full-time jobs that are there.

So energy security is part of this debate and we're in the deepwater. The vast majority of time we're doing it successfully. We need a low-cost energy to make us competitive in the world today.

I hear from—Michelle from Staunton says, How much money are they spending on technology to put safety measures in place?

Let me ask this question so I get at least one response instead of my filibuster. A second blowout preventer in deepwater application, what would that cost? Go ahead, Mr. Tillerson, on down.

Mr. TILLERSON. I would have to ask my experts. It would not represent a huge additional cost for the daily spread rate. And I think the real question that we want to look at is when you do that, do you change in some way the safe operation of the mechanisms you have, which have worked very well for 14,000 wells? So we just want to be careful that we understand—it is not really a cost issue.

Mr. SHIMKUS. Yes. And I think I have been told \$15 million, but we've been told that this is a requirement in other places around the world and in some operations, so that might be something that the panel might want to consider.

Can anyone address this debate about lifting the cap? Helpful, harmful, for current operations and future operations? Don't be shy.

Mr. MULVA. Given the situation that we are facing an unprecedented event that we never expected would take place. So, obviously, given the situation, I think it's appropriate for us to take a look at the cap, what it should be. It most likely needs to be raised. In doing so, I think the industry should come forth, the States and Federal Government should come forth and make a good judgment, informed decision on what that cap should be. But we've obviously faced an unprecedented situation, and it needs to be evaluated and changed.

Mr. WATSON. I would just comment that it is a combination of financial capacity, general funds that would be made available from industry contributions, insurance. In total, that can realize an effective system for ensuring that there are funds available or responding to an incident like this.

Mr. SHIMKUS. Thank you, Mr. Chairman.

Mr. MARKEY. The gentleman's time has expired. The chair recognizes the gentleman from Pennsylvania, Mr. Doyle.

Mr. DOYLE. Thank you, Mr. Chairman.

Would you gentlemen all agree that Americans' confidence in the ability of the oil industry to go deepwater safely has been shaken by this event? Would you all agree with that statement? And it is in all of your best interests to restore the confidence so that—because we want this resource, but this price is way too high of a price to pay for it, what we're seeing right now.

Let me ask you a question. I get asked this a lot, Mr. Tillerson. I think you basically made the statement that, hey, we need to stop this before it happens because once it happens, we really don't have a good way to stop what's going on here, right?

A lot of people have suggested this idea of why isn't it required that we drill a relief well at the same time we're drilling the main well. So that if this situation that is occurring right now, if that relief well was already drilled and sitting there, that we would have been able to cap this well certainly a lot quicker than we're doing right now.

I would like to hear from each one of you whether or not you think it's a good idea to require that a relief well be drilled simultaneously with the main well as a condition for future drilling.

Mr. TILLERSON. Well, I would say you just doubled your risk. This is an exploration well, so it means you are drilling in an area that has not previously been drilled before. If you look at the history of well control problems and blowouts, most of them have occurred on the way down to the objective, not once they have reached the objective. They are caused by shallow gas hazards. They are caused by unknown pore pressures on the way down to the objective. So if you have two wells going down at the same time, it just means you have now increased your risk of having a problem on both of them. I don't think it's a viable nor necessarily a good risk management option to consider.

Mr. DOYLE. Next.

Mr. WATSON. We favor redundancies in the well design and how we drill our wells. We don't think that a relief well will reduce the risk, and we don't advocate it.

Mr. MULVA. Given we feel that time will show that this incident and accident, tragic accident, certainly could have been preventable, what we have found is that the response to such an unprecedented situation is inadequate. The question really is, what could we or should we be doing to improve our response? Because the only certainty that we see today is a relief well.

I think that where you need to spend a fair degree of time and money and resources is on technology so as to improve our capability on the sea bed to contain and capture out-of-control well.

Second, I think technology-wise we are going to have to do a much better job of when oil gets on the water to contain it in a smaller area and have more capability to handle it.

And third is I think we also need to learn from this incident and situation a far more effective, efficient approach with respect to oversight and regulation.

Mr. DOYLE. Thank you.

Mr. ODUM. I generally agree with the comments that have been made. I think, just to go back to one point, though, the real opportunity is the redundancy, meaning the multiple barriers, the way

a well is drilled or is it well designed. Those need to be testable, verified, in-place barriers. That's the opportunity.

Mr. DOYLE. Mr. McKay.

Mr. MCKAY. Yes. I generally agree and I think learned quite a bit about sub-sea intervention capability that can be developed going forward.

Mr. DOYLE. Yes. Mr. McKay, I appreciate your response. It just seems to me that the only solution left to us at this point seems to be to get that relief well down there, that a lot of people were asking the question why isn't one there in the first place. And it just seems to me that I read it would cost \$100 million to drill a relief well. I am sure BP wishes they spent that \$100 million before they drilled this one.

It just seems to me that right now I don't understand a better answer of how we stop this when it happens than to get a relief well down there, and the thought that it takes 2 months or 3 months to do that while all the oil comes out of the ground just seems incredible to me.

Let me ask in the time I have remaining that, in 2000, the Minerals Management Service proposed a rule to implement best cementing practices for offshore drilling operations. We know now that cementing was a factor in what went wrong here and that MMS was concerned that operators were using unregulated cementing procedures.

In light of the recent events that we see here, I would like to ask each one of our witnesses if they think cementing should finally be regulated, if there should be a standard for it.

Mr. TILLERSON. Well, I think, as is footnoted in Chairman Waxman and Congressman Stupak's letter, the API already has a number of standards and recommended practices for cement and cementing operations; and I think, had those been followed, at least that element in this case might have been eliminated.

Mr. DOYLE. But it's a voluntary standard, is it not? I mean, there's no penalty for not following it.

Mr. TILLERSON. Well, I guess that's right, other than if you want to live with that risk.

Mr. DOYLE. I see.

Mr. TILLERSON. It's a risk—I guess it's a risk management decision.

Mr. DOYLE. Yes, I guess it sort of gets down—I see my time has expired, Mr. Chairman—as to whether or not we just have voluntary best practices that we count on you guys to implement or whether we make sure they are implemented.

Mr. Chairman—

Mr. TILLERSON. Well, and whether you can keep your regulations up with the technology.

Mr. DOYLE. Yes. Thank you.

Mr. MARKEY. The gentleman's time has expired.

The chair recognizes the gentleman from Arizona, Mr. Shadegg.

Mr. SHADEGG. Thank you, Mr. Chairman; and I thank you gentlemen for being here.

I think every single American wants, first and foremost, to see the flow stopped and to see the area cleaned up. Unfortunately, I am afraid that many simply want to exploit this as a crisis, recog-

nizing that you should never let a good crisis go to waste, as Mr. Rahm Emanuel said, rather than to deal with it and learn from it.

I want to begin by asking each of you to respond to this question. Specifically, the question is, is there more that you could do or your company could do or are there assets that you have, whether it's booms or ships or whatever, that you could deploy to assist in either stopping the current flow or cleaning up the current flow? Just yes or no or a brief explanation.

Mr. TILLERSON—I would just like to ask the four: Tillerson, Watson, Mulva, and Odum.

Mr. TILLERSON. No, we have made everything available we have.

Mr. WATSON. No, I am not aware of any resource we haven't made any available.

Mr. MULVA. All made available. It doesn't mean that everything we have offered has been used, but it has all been made available, yes.

Mr. SHADEGG. My next question is, were you asked to make that available by the President or were you asked to make that available by BP? On what basis did you make that available?

Mr. TILLERSON. Well, we made certain equipment and facilities available immediately after the incident occurred. That's just part of our industry mutualized response. We then were contacted subsequent to that, at least I was, by Admiral Allen, requesting specific needs that they had and just wanted to know if, you know, there were—you know, if we had any other way that we could help them with those needs.

Mr. SHADEGG. Mr. Watson.

Mr. WATSON. A similar response in that we made equipment available, and then I did receive a call from Tony Hayward on some specific individuals.

Mr. SHADEGG. Let me cut this short. Was anybody contacted by the President or by anybody in the White House?

There's been a lot of focus today on what you do today after the spill occurs, and yet it seems to me that everything I can read about this indicates that what went wrong went wrong before the spill occurred. Indeed, there was a lengthy op-ed placed in the Wall Street Journal by Mr. Hayward, I believe, on May 25. And last Friday, on June 11, the President of Samson Oil & Gas Company, Mr. Terry Barr, wrote a letter to the editor, which the Wall Street Journal published. In it, he said this oil disaster was about human, not system, failures; and he cites a series of red flags having to do with the incorrect cementing job and other things, all based on the testimony by BP before this committee earlier this year where BP came in and was asked about what it did and what tests it performed, the, I guess, inadequate shoe, the failure to get a top plug.

I would like to know if each of you have kind of indicated that this is not the real well you would have drilled or you would not have drilled in this fashion. Have any of you happened to read this letter to the editor?

Mr. WATSON. I have seen it.

Mr. SHADEGG. Anybody else seen it?

Mr. MCKAY. Yes.

Mr. SHADEGG. Mr. Odum, you saw it.

Mr. ODUM. Yes, I have seen it.

Mr. SHADEGG. Mr. Mulva, you have seen it. Mr. Tillerson, you have not seen it.

Of the three of you that did see it and read it, would you agree with it that specifically it cites a number of red flags that should have been indicators that safety procedures or different procedures should have been followed going forward?

Mr. WATSON. I haven't said that I have evaluated it and the merits of it, but the basic content is consistent with some of the concerns that have been cited elsewhere.

Mr. SHADEGG. Mr. Mulva.

Mr. MULVA. In drilling these types of wells, we look at how the well was drilled; and based on publicly available information, we wouldn't have drilled the well that way.

We feel that it's most important to have two barriers to contain or control the hydrocarbons verified and tested by pressure to verify those two barriers exist. And in those two barriers, the blow-out preventer is not one of the two barriers.

Mr. SHADEGG. Fair enough.

Mr. ODUM. Referring to the letter, the piece that is consistent from my point of view is, yes, systems are extremely important. They have to be right, well designed and so forth.

The other critical element is the human side of that. So, you know, our philosophy is we focus on that culture, a safety culture, a culture that stops work if something doesn't look or feel right that anybody on the site—doesn't matter if it is a Shell employee or not—can stop that work. That culture is critical.

Mr. SHADEGG. Mr. Chairman, I would like to put this in the record, unanimous consent.

Mr. MARKEY. Without objection, the letter the gentleman from Arizona is referring to will be included in the record.

[The information appears at the conclusion of the hearing.]

Mr. SHADEGG. I believe you are all aware that the President has instituted a 6-month moratorium on deepwater drilling, that apparently that even on shallow water drilling there is at least a stoppage based on new procedures that are supposed to come out very quickly. That moratorium was based on a report requested by the Interior Secretary called The Increased Safety Measures for Energy Development on the Outer Continental Shelf. And I assume you have all seen that report. It was held up by Mr. Dingell earlier. Is that correct?

You are all aware that seven of the scientists who worked on that report have now written a letter that it was modified after they either wrote it or reviewed its content and that they do not—let me quote. Those seven scientists have said, we do not—we believe the report—or unmodified report does not justify the moratorium as written and the moratorium as changed will not—or as actually implemented will not contribute measurably to increase safety, will have immediate and long-term economic arguments. And they say an argument can be made that changes made in the wording in the report are counterproductive to long-term safety.

Have you reviewed their concern to the Secretary of the Interior, any of you?

Mr. WATSON. I have not.

Mr. SHADEGG. Well, let's talk about some of the things it says.

It says, point blank, we do not agree that a 6-month blanket moratorium—we do not agree with the 6-month blanket moratorium on deepwater drilling. It says a blanket moratorium is not the answer. It will not measurably reduce risk. It will have a lasting impact on the Nation's economy which may be greater than that of the oil spill.

They seem to be pretty upset——

Mr. WATSON. I am sorry. Could you just refer—I have seen those recommendations.

Mr. SHADEGG. They seem to be pretty upset that their report was altered, apparently, by the Secretary of Interior after they signed off on it and then sent to the President.

I would like to know how many jobs will be lost if the moratorium is overly broad and what the consumer impact will be if the moratorium is overly broad. And do you think the moratorium is needed or do you think it's, as apparently these scientists think, it is overly broad? Mr. Tillerson.

Mr. TILLERSON. Well, I understand, you know, the motivation for the moratorium and the desire to have in effect a stand-down to ensure that the ongoing operations are being carried out safely.

Now, Department of Interior Secretary Salazar did immediately order a reinspection of every deepwater drilling rig and activity out there. Those inspections were carried out. In fact, some of them were carried out twice, and there were no deficiencies of concern that were identified. So, in my view, I think the moratorium was unnecessary in terms of the extent and the length of it. And so I would—you know, I would hope that that could be revisited very quickly.

Mr. SHADEGG. Mr. Watson.

Mr. MARKEY. The gentleman's time——

Mr. SHADEGG. If the other three gentlemen could just quickly say whether they agree or disagree.

Mr. WATSON. I would agree.

Mr. MARKEY. Thank you, sir.

Mr. Mulva.

Mr. MULVA. With respect to the moratorium——

Mr. MARKEY. The gentleman just needs a yes or no.

I apologize to the gentleman. The gentleman's time has expired.

The chair recognizes the gentleman from Washington State, Mr. Inslee.

Mr. INSLEE. Thank you.

I think what is so disturbing, at least to me, in this investigation is that this was not simple human—one human failure of running through a stop sign. It was going through one stop sign after another. No batteries in the blowout preventer, hydraulic leak not fixed, failure to do a cement log, not having adequate centralizers when their own personnel recognized they didn't have enough of it.

We get an e-mail from someone who said, but who cares, it's done. End of story. We will probably finally get a good cement job.

I mean, if airline industries were operated the way this particular situation was, no one would fly an airplane. And the whole industry now, I think, needs to think seriously about what we do about this.

One of the things is the corporate culture, and I think there's a serious question about the corporate culture here with British Petroleum, whether or not it really rewards and insists on safety performance.

Mr. McKay, how many people have lost their jobs as a result of this disaster of British Petroleum?

Mr. MCKAY. I don't know of any yet that have lost their jobs. There are, I think, a couple of people who have been placed on administrative leave as the investigations are conducted, but I don't know of any yet.

Mr. INSLEE. Do you think that that will happen over time?

Mr. MCKAY. It's hard to speculate, but I assure you that if the investigation showed that people made mistakes they shouldn't have made, that could very well occur, yes.

Mr. INSLEE. Well, we will be watching; and certainly in the U.S. Navy they would have a culture that would respond to this adequately. I would just tell you my constituents are not impressed with the response yet from British Petroleum in this regard.

Second, we want to ask about whether or not the industry has made appropriate investments in improving safety of offshore. We are going deeper and deeper in the water, extraordinarily deep as our oil supplies dwindle and the risks increase. I think everybody acknowledges that. So the question is, what is the industry investing to try to determine that?

British Petroleum—we asked these questions to the five companies here. British Petroleum responded that they had spent \$10 million in 1 year in research for offshore safety and technology investments. How much did British Petroleum pay its CEO last year in relationship to that \$10 million you spent on trying to come up with safety offshore drilling techniques?

Mr. MCKAY. I don't know his exact pay.

Mr. INSLEE. Well, the published report suggests that he was paid about \$36.5 million, three times more—you paid your CEO three times more than you spent in your entire research budget to determine how to reduce the risk of catastrophic failure in the offshore oil fields. Do you think that is an appropriate prioritization for a company in your business?

Mr. MCKAY. I can't comment on his salary. I actually don't think that's a correct number, so could we get back to you on his salary?

Mr. INSLEE. Thank you.

Just so you know you are not alone on this, Conoco spent .008 percent of its profit on trying to improve offshore technology. Exxon spent .08 percent, British Petroleum spent .06 percent. Those are not huge numbers.

And I think it's pretty apparent, given this risk and given the increasing risk of going deeper in water, we encourage the industry to start making more serious investments to try to prevent these situations from taking place.

The third thing I want to ask the industry about is about the investments you all are making in an attempt to prevent invisible oil spills; and I will just ask you very quickly, does everyone agree that every single oil well you drill and that we use ends up in the invisible oil spill because we burn it, it makes carbon dioxide. The carbon dioxide goes into the oceans, the oceans are now more being

more acidic because of the carbon dioxide, and they are 30 percent more acidic than pre-industrial times because of the carbon dioxide that comes from burning fossil fuels.

Obviously, you are not responsible for all of that. But, very quickly, can you all just say yes or no if you agree with that.

Let's start with Mr. McKay. Very quickly.

Mr. MCKAY. I would not agree with that characterization.

Mr. ODUM. It's not a yes or no question, I don't think. I do see the link between oil production and CO₂.

Mr. MULVA. I don't agree.

Mr. WATSON. There are emissions associated with our operations and our product.

Mr. TILLERSON. It's a scientific debate, so I am not sure we can answer yes or no.

Mr. INSLEE. Well, actually, it's not a scientific debate. We have had a lot of hearings on this, and there is no scientific debate about this. Carbon dioxide makes the oceans more acidic. And your joint investment as percentages of your gross revenues for energy sources that won't put carbon dioxide in the air are ConocoPhillips .03 percent of revenues; Exxon .1 percent; Chevron .31 percent; Shell .26 percent; British Petroleum, which at one time was meant to be called Beyond Petroleum .09 percent.

Now I have got to ask you, to me, those investments—and we appreciate any investment you make—but isn't it clear that at that level of investment, we will not be able to solve this problem of pollution in the oceans caused by carbon dioxide? Would everybody agree with that?

We will start with Mr. McKay.

Mr. MCKAY. The changeover and the transition to alternative energy will take quite a while and a tremendous amount of investment.

Mr. INSLEE. Well, let me ask me ask this question. Does everybody agree we have got to up our investment in clean energy technologies if we are going to solve this problem of carbon dioxide acidifying the oceans?

We will start—let's start with on the other side of the table.

Mr. MARKEY. Please make it yes or no.

Mr. TILLERSON. These are not—these issues are too important and too complex to be reduced to yes or no answers. And so I—you know, I am just not going to go there with you. This is too important to have a yes or no conversation.

Mr. INSLEE. We will appreciate your written response. We will look forward to that if you can provide it. Is that OK? Thank you very much. I appreciate that.

Mr. MARKEY. The gentleman's time has expired.

The chair recognizes the gentleman from Missouri, Mr. Blunt.

Mr. BLUNT. I thank the chairman.

Mr. McKay, on the issue of cleanup, I think your company has said that they are going to be fully responsible for whatever the cost of the cleanup; is that right?

Mr. MCKAY. That is correct.

Mr. BLUNT. What about economic damages?

Mr. MCKAY. Yes. We have said that we would honor all legitimate claims. That's right.

Mr. BLUNT. So the current cap, which actually I have introduced legislation, would retroactively impact that cap, but you are not concerned by—you are not going to use the limit of the current civil damages cap at all. You have pledged to take—to respond to all legitimate claims for damages?

Mr. MCKAY. That's right. We have said that we will ignore that cap, and that cap is irrelevant for this particular matter.

Mr. BLUNT. And the cash reserves of the company suggest that you would be able to do that?

Mr. MCKAY. We believe so.

Mr. BLUNT. What are the cash reserves of the company right now?

Mr. MCKAY. I don't know the cash reserves of the company right now.

Mr. BLUNT. Do you have cash on hand? I mean, give me a—is there a cash number of available cash that you could turn to?

Mr. MCKAY. I can get back to you on that. I don't know that off-hand.

Mr. BLUNT. All right. I would like to see that.

And what about the payment of dividend with this kind of exposure out there? Has the company revisited the dividend issue at all, I think a \$2 billion dividend? With this kind of unknown exposure, does that seem like something that the company should be doing right now?

Mr. MCKAY. Our chairman has said publicly that we will—our priority is the Gulf Coast and making things right on the Gulf Coast, and then we will have to balance the other components of dividend investment, balance sheet.

Mr. BLUNT. As the chairman said, are the dividends going to be paid or not?

Mr. MCKAY. That decision has not been made yet.

Mr. BLUNT. Has not been made yet. So that's still something the company can look at it as it looks at the overall financial cost of the cleanup and the civil damages; is that right?

Mr. MCKAY. Yes. The second quarter dividend decision has not been made yet.

Mr. BLUNT. How many U.S. employees does British Petroleum have?

Mr. MCKAY. About 23,000.

Mr. BLUNT. What percentage of your overall workforce, employee workforce, would that be? Are there more U.S. employees of British Petroleum than any other country?

Mr. MCKAY. Yes, by quite a bit.

Mr. BLUNT. By quite a bit?

Mr. MCKAY. Probably by triple.

Mr. BLUNT. My mike here or not—it was one of my phones, I guess, too close to the mike.

On this issue of the relief well, Mr. Tillerson, I think you said that it would double the risk of the problem, and I heard the person that asked the question still say he didn't understand why we wouldn't be doing this. Why would you want to double the risk—and maybe you can't answer that since you said you would double the risk. How would this again—let me ask this one more time.

Why would that double the risk potential rather than provide more secure, more safety to the situation?

Mr. TILLERSON. Well, whatever risk exposure you are trying to manage with the exploration well would be the same risk exposure you would be having to manage with the relief well.

Mr. BLUNT. And does any country require a relief well right now?

Mr. TILLERSON. No, not one drilled concurrent with the exploratory well.

Mr. BLUNT. All right. I am puzzled. I think I understand why you double the risk. I also understand when you have got a problem how you try to get to the source and relieve the pressure. I guess that's what the current British Petroleum relief well would do. But I don't understand why anybody thinks that doubling the cost of drilling a well would have any positive impact—and you don't believe any other country requires a relief well being drilled at the same time?

Mr. TILLERSON. I know, at least in the countries where we operate, no one does.

Mr. BLUNT. How long—Mr. Watson, how long do you think these platforms can set in the Gulf right now that are not being used? At some point, do you have to make a decision that even though the well is partially drilled—are they going to allow the partially drilled wells to be completed or what's your sense of this moratorium idea?

Mr. WATSON. If you are referring to the rigs that we have idle, we have not yet moved these rigs out of the country. But the industry—and we will respond if it appears that the moratorium is going to extend indefinitely or if it's not clear when we can put these rigs back in service.

They can set for a long time, but the market for deepwater rigs is robust right now. Deepwater wells are being drilled all over the world, and developments are taking place around the world, and there is demand for these rigs.

Mr. BLUNT. I assume if you move these out, it takes some time to move them; and it takes some time to decide whether you would ever move them back or not. Would that be a reasonable assumption?

Mr. WATSON. Certainly there are mobilization costs. There are contracts that have to be arranged. There are partner arrangements in the new country or area where it will be drilled. And once it's drilled those same impediments are in place to moving them back.

So it would be an issue for development in the Gulf of Mexico if we were to lose those rigs. Ultimately, they can return, but in many cases they will be put in service elsewhere.

Mr. BLUNT. Thank you, Mr. Chairman.

Mr. MCNERNEY [presiding]. Thank you.

The chairman recognizes himself for the next 5 minutes.

First of all, I would just like to thank you all for coming. I am sure there are places you would rather be this morning.

Mr. Watson, looking ahead, I am familiar with some of the investments that Chevron has made in geothermal and biofuels. Do you see that becoming a significant portion of your bottom line and, if so, how soon?

Mr. WATSON. Right now, 85 percent of the world's energy comes from fossil fuels; and renewables represent a small portion of that. Similarly, for our company, although we are the largest renewables producer amongst these companies and other oil companies, thanks to our geothermal operations, I think it will be a long time before all forms of alternate energy represent a significant portion of our bottom line.

Now, we do have an energy conservation company that's in place. We do have our geothermal business. We are doing research in biofuels. And I would be delighted to make additional, profitable investments in those businesses if they would become economic.

Mr. MCNERNEY. Well, I certainly recommend that you follow that path.

Mr. Tillerson, in your testimony you state that an impartial review of events in the Gulf is essential to understand what happened and to prevent its reoccurrence. Given that, do you think that the oil industry's failure to adequately prepare for a disaster in the Gulf requires enhanced oversight of the industry?

Mr. TILLERSON. Well, I think, again, the emphasis is on prevention. If you don't have the blowout, if you don't have the loss of well control, if you don't have the spill catastrophe to have to deal with. Having said that, I think clearly there are going to be a lot of things to learn from now from what has been an actual spill of this magnitude, which previously we only had models to try to help us understand that.

Mr. MCNERNEY. Well, the oversight would have to include prevention to make sure that the business that's done in the Gulf and in deepwater has adequate safeguards built into it and that those safeguards are followed, that the regulations are followed. It seems to me that that's a good, a fair question. Do we need government oversight or are the companies going to be able to police themselves at the current level?

Mr. TILLERSON. Well, and I think you need both. There are industry standards and recommended practices that have been put in place; and when those are followed, most of these problems are avoided.

Having said that, there's also a proper role for regulatory oversight; and the Department of Interior has undertaken an exercise to look for areas where they could enhance the oversight of the industry's practices. And I think the President's commission, which is now being formed to look at this entire incident, both from the standpoint—it should look both at prevention and response—and I hope ultimately out of that commission we will know.

Mr. MCNERNEY. So we can work cooperatively with the industry to find the right set of rules and regulations and how to make sure that they are properly implemented?

Mr. TILLERSON. Yes, sir.

Mr. MCNERNEY. Mr. McKay, it seems that all the steps to contain the gush seem to have been ineffective or even made the situation worse. As we watch oil gushing out on those videos, the fail-safe device appears to me in the videos to be breaking apart and oil coming from different parts of the device itself. Is there corrosion involved in this equipment or what am I seeing that makes

me think that that device is coming apart and failing in different ways?

Mr. MCKAY. What you are seeing on the videos is that we had to cut the top off of the riser that was damaged and put a cap on top of this lower marine riser package that sits on top of the blowout preventer.

Mr. MCNERNEY. Right. And that seems to have made oil gush out from below.

Mr. MCKAY. That's because the capacity of our system right now, to take it up through the riser, is lower than the total rate of the well; and that's why you see it coming out from around the bottom of that cap. Today—and I haven't gotten an update yet—but today we should have a secondary system producing off of that blowout preventer which may relieve some of that that is coming out.

Mr. MCNERNEY. So you are saying oil is not coming out from inside the device itself?

Mr. MCKAY. No, it's the lower marine riser package that sits on top of the blowout preventer.

Mr. MCNERNEY. It just seems that there's—that the device was incapable of withstanding the kind of pressure that would be needed from the top to stop it, you know, when it was coming apart. Maybe concrete was coming out or something like that. That's not what I had seen on the video.

Mr. MCKAY. No, no.

Mr. MCNERNEY. All right. I yield back.

Mr. Sullivan, the gentleman from Oklahoma.

Mr. SULLIVAN. Thank you, Mr. Chairman. I appreciate everyone coming today.

My first question will be for Mr. McKay. Who is in the room making the decisions on how to stop this well right now?

Mr. MCKAY. We have a crisis center in Houston, and we have about 500 people working there, and that includes BP personnel, industry personnel, Coast Guard, Navy, Department of Interior, MMS, NOAA, USGS. I mean, it's a unified command system in Houston around source control.

Mr. SULLIVAN. Is it different than it was a month ago, today?

Mr. MCKAY. It's probably got some different participants in the crisis response room or area. There are teams working on flow measurement that are there that are incremental versus a month ago. But, in general, the structure is about the same.

Mr. SULLIVAN. Do you think it's working?

Mr. MCKAY. I think it is. I think what's maybe not understood by the American public is that we have had parallel efforts going on all the time to increase capacity redundancy and options around killing or containing this well; and those have been worked on from day one, many of them, and some of them take longer than others.

So, yes, I think it is working. I mean, it's unfortunate that we can't put it out; and the frustration is unbelievably high with everybody. But I think everything that can be done is being done.

Mr. SULLIVAN. Thank you.

Mr. Tillerson, in your testimony, you stated that ExxonMobil has drilled almost 8,000 wells—which I thought was interesting—worldwide over the past 10 years and that, of these, 262 have been in deepwater, including 35 in the Gulf of Mexico. Can you discuss

what measures your company has taken that have resulted in nearly 8,000 wells being drilled over the past decade without a blowout?

Mr. TILLERSON. Well, I mentioned broadly in my opening statement that what we know is if you design the well properly and there are good industry standards and recommended practices that are published, if you develop good operating procedures, you train the people, you conduct drills, and you use multiple layers of redundancy—and it's not just redundancy in equipment, but it's redundancy in people, eyes and people that are looking at this well as it's being drilled.

So that when you are seeing certain things occur in the well that either you don't anticipate or they are telling you that the well is not going according to plan, that you then adjust and manage the change. And a part of our system is a very specific management of change of process that, when something is not going to plan, there is a process by which you must go through to deal with that change, and that includes involving peer reviews and multiple layers of people looking at that to ensure that we really are about to do the correct thing to maintain the well control and the well integrity.

Mr. SULLIVAN. Did anybody—during Hurricane Katrina or Rita, did anybody experience any problems?

Mr. WATSON. We were extensively impacted during the hurricanes and, in fact, learned a great deal from those hurricanes and have incorporated those learnings into our response and other capabilities.

Mr. SULLIVAN. As regard to leaking, any spills?

Mr. WATSON. There were impacts from toppled platforms. So, yes.

Mr. SULLIVAN. Well, also—this is to everybody—can each of you go into the negative impacts of a deepwater moratorium on U.S. energy production and domestic energy security? How would it affect energy exploration in the Outer Continental Shelf? Where will your rigs go? Could it be foreign waters? And, also, could you explain how we are going to need oil for decades to come, even though we are exploring other technologies of energy?

Mr. ODUM. I think there's a lot in that question, of course. But the fact that we are going to need oil for decades to come is probably the best place to start, and it's simply the scale and the size and the affordability of the energy system overall and understanding what technology, what investment, what government policy and other elements are required to shift that over time. You look at that and you understand the elements of that and you know it will be decades that we will be using oil and gas.

I think we have addressed to some degree the economic impacts of what will happen to the rigs. But, clearly, these are big, expensive pieces of equipment. Each one, you know, probably has an employment surrounding each one of these deepwater rigs, it could be up to a thousand people. That piece of equipment needs to find a home where it's working and generating revenue, and that's what those pieces of equipment will do as soon as they can work that out.

Mr. SULLIVAN. Anybody else?

Mr. Mulva, in your testimony, you state that the business of offshore exploration will and must continue and that we can do it safely and responsibly. Can you elaborate on that?

Mr. MULVA. I believe the industry has proven that it can be done safely and reliably. From the responses to the questions here this morning, I believe that the tragedy that has taken place, there are certain lessons to be learned and that most of us sitting here today would have, by our practices and policy, would have drilled the well and handled it differently.

If we look at what this means for natural resources, these are indigenous resources for our country, and it's very important for energy security that we develop our own resources. We can do these in a way that's safe and an environmentally responsive way. Obviously, through the incident, we have learned that a response to an incident like this is not adequate. We will have to make the changes to do so appropriately.

But developing our own indigenous resources is so important because it gives us energy security, provides investment, and it provides jobs and financial resources to the States, communities, and the Federal Government.

Mr. SULLIVAN. Thank you very much. I yield back.

Mr. MARKEY [presiding]. The gentleman's time has expired.

The chair recognizes the gentleman from Texas, Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman.

Following up a substantial line of questioning, I heard the analogy that no one would fly an airplane if we flew an airplane like we drill wells. I would say it is the reverse. After 9/11, we didn't shut down for 60—you know, 6 months flying on airplanes to find out what happened. Even when there's a terrible airplane crash and a tragedy, we investigate, we come up with findings and fix it; and that's what I am hoping we will be able to do.

I guess my frustration, coming from an oil and gas area, is that anytime we have a tragedy like this in the energy industry, it hurts the areas where I come from. I have literally thousands of constituents who work in the energy industry, oil and gas. I have refineries. I have chemical plants. We still produce in our area, plus we have a lot of constituents who work offshore.

So every time a short circuit decision is made, you impact not just the employees of your company and their families, you impact the whole industry; and that's what's frustrating sitting here today.

One of the questions—and having been to Norway and, actually, I know, with the chairman of the committee we were there and the standards they have—it's interesting I think the last leasing opening, bid opening in the Gulf of Mexico, Statoil from Norway, actually was the biggest bidder on the Gulf of Mexico.

And I have asked for many years the difference in production, particularly a Norwegian oil company in the Gulf of Mexico, is compared to Norway off their shore; and that leads up to the question of should we encourage the Department of Interior, Minerals Management, to actually regulate in using API's cementing requirements. Would that be something that we should do? Because I know it's a voluntary—I know all of your members of the American Petroleum Institute, but it's voluntary. Is that something we should do? Although the cementing is one problem we have here—

and there's lots of other ones and those of us who have spent a lot of time looking at it—just to answer that question, should we actually make that a regulatory requirement with the API? If it is done as a voluntary?

Mr. TILLERSON. Congressman Green, I responded earlier, a short answer to that question, I think the challenge is certainly those standards, I think, have been well designed and they have all the industry input around being a best practice. That could be made a regulatory requirement.

I think the thing that everyone needs to appreciate is, in exploration drilling in particular and in certain situations, you want to be able to formulate that cement so that it is fit for the purpose that you are using it. And so I think as long as the regulation were written to accommodate the fact that you want to have the best cementing integrity you can have in that well so it serves its purpose, and if conditions change there's not an overly onerous procedure by which you can have a formulation that might have moved outside of that regulation because new capabilities have been developed. That would be the only concern I would have around it.

Mr. GREEN. Well, and my concern is we have a 6-month moratorium on deepwater. The impact on the industries and the people who make a living in the Gulf of Mexico is pretty dramatic.

I would hope that 6 months would be the maximum, and we could get some standards in place both for you to follow but also for the American people to have some comfort in the Federal Government responding to a disaster that cost 11 lives and we still haven't counted up the cost.

So would it be better to look at what Norway already does in their offshore production? Because I know the testimony earlier you said that they have the strictest offshore standards in the world. Would that be better to actually look at what Norway does?

Of course, in the Gulf of Mexico, we are not dealing with cold water. And having been to Norway and understand the difference in the high north and what we have in the Gulf of Mexico. But, you know, maybe we ought to look at the toughest standards in the world to produce in the Gulf of Mexico.

The reason is that Statoil is getting ready to start producing because they leased it, and I don't want them to lease in the Gulf of Mexico for less standards than what they have to lease off their own country.

Should we look at what Norway is doing and the success they have had?

Mr. ODUM. If I could just comment on that.

I think, first of all, I just want to make the statement that the industry benefits as a whole from a good solid set of recommendations; and I think you would find all of us supportive on getting that in place.

So to the earlier comment of making sure the appropriate flexibility to ensure safety is included in those regulations, what you have already seen as a result of this incident is a joint industry task force that got together, including members of API, to say here is a set of recommendations that we would make. There could be regulatory changes, but we think it would make this operation bet-

ter, safer, more appropriate. So the answer to your question, I believe, is yes.

Now, as we go into those joint industry task forces and develop those recommendations, we bring elements like what's done in Norway and what's done in other parts of the world. We bring that knowledge into that conversation.

Mr. GREEN. Mr. Chairman, I have one more question, if I could.

BP, I guess I get frustrated because I have constituents who work at the Texas City Refinery, and I know you have heard it. It's just frustrating. It seems like oftentimes at BP there's been expediency—in this case particularly, what we know now and we will know more as we go—as compared to safety.

And we found that out in the Texas City Refinery in the loss of 15 lives that there were decisions made not to fund the safety issue. And actually there was a neighbor of mine who lost his life there at Texas City that lived in Baytown.

So I would hope that the problems, whether it be with the pipeline in Alaska or any refinery, whether it be in the Midwest or Texas City, Texas, it's close to our district, that BP would look at the safety more so than trying to move that rig to another production site.

Mr. Chairman, thank you.

Mr. MARKEY. The gentleman's time has expired.

The chair recognizes the gentleman from Alabama, Mr. Griffith.

Mr. GRIFFITH. Thank you, Mr. Chairman.

Some of the child-like, accusatory, mean-spirited, petulant questioning demonstrates a couple of things in this hearing. One is that it is very, very difficult to resist demagoging this tragedy, and that's unfortunate. The second thing it demonstrates is that there is really not a lack of natural gas here on Capitol Hill. So some of you have been subjected to some things that I think are disrespectful.

I do think it's interesting that some were stunned to find out that your disaster responses were similar, almost word for word. You would be surprised to find that an airline disaster plan is similar from company to company. You would be surprised to find that chest pain in an ER is similar all over the United States in how we handle it, and disaster responses to hurricanes and tornados are absolutely word for word from municipality to municipality. So that should not have surprised anyone, even though it did.

With that, I have a question for Mr. Watson. You mentioned something earlier about your company had a stop work policy. What exactly is that?

Mr. WATSON. A stop work authority is really the authority that's vested with each individual employee and contractor to stop work if they see any unsafe condition that jeopardizes health, environment, or safety.

I think the important part of the policy that we have in place isn't that it's written down, because I think many companies have it written down. It's important that it's exercised and when it's exercised that the follow-up to that by management is appropriate.

I was in Australia a couple weeks ago when we recognized the contractor who exercised stop work authority in a lifting operation.

So we routinely recognize people and reward people for using stop work authority.

If there are adverse consequences for employees that advocate stop work authority it ceases to become very effective, so we work very hard not to send unintended messages after it is exercised.

Mr. GRIFFITH. Thank you.

Mr. McKay, the possibility that there's a different structure or make-up of the surface oil versus the subsurface oil, what procedures are being done by the unified command to determine how best to handle one versus the other?

Mr. MCKAY. It's two pieces. Well, one, obviously, we are trying to contain or stop and then, since that hasn't been successful, contain as much oil subsurface as possible and get that to the surface and can deal with it. The oil that's coming out, we are using sub-sea dispersant, which will disburse the oil into tiny droplets and speed biodegradation. The oil that gets to the surface is being dealt with with skimmers and burning and other techniques to try to fight it as far offshore as possible.

I would say that the monitoring programs and the measurement programs around subsurface oil and dispersant is extensive. It has shown that the oil concentrations are very low. That's both the data we are conducting on the unified command as well as independent NOAA data. That's going to be tracked diligently for a long, long time to make sure we understand what's happening and the natural resources damage assessment that will go into—that's being studied now, that sets the—effectively, the restoration plans to damage will key on some of that as well. So that's under way.

Mr. GRIFFITH. Thank you.

One more question, Mr. McKay. The Deepwater Horizon was commissioned in what year?

Mr. MCKAY. I think 2000. I think 2000.

Mr. GRIFFITH. And it has had a record of drilling, how many—been involved in drilling how many wells?

Mr. MCKAY. Over 100 deepwater wells.

I am sorry. Probably not—no, that's a wrong number. I will have to get back to you on that.

Mr. GRIFFITH. This is probably not a structure that was flawed or brand new or we were unfamiliar with?

Mr. MCKAY. No. The Transocean rig had been working with us since it was commissioned and has been a good rig and operated difficult wells quite well.

Mr. GRIFFITH. So it could drill successfully 70 plus wells.

Mr. MCKAY. It has drilled a lot of wells.

I just would also like to make one comment. We also have a stop work program, as has been mentioned, and I believe our contractors do as well. And that is a fundamental, important piece of safety management on a rig or an operation like this.

Mr. GRIFFITH. I yield back my time, Mr. Chairman.

Mr. MARKEY. The chair recognizes the gentlelady from California, Mrs. Capps.

Mrs. CAPPS. Thank you, Mr. Chairman.

Mr. McKay, last year, you testified before the Natural Resource Committee. It must seem like ages ago. It was before this bill. This

is what you had to say about the role of technology and the oil and gas industry, and I quote:

The energy industry isn't usually classified as a high-tech business, but it truly is. This technology has been instrumental in protecting the environment. Today's offshore oil drilling technology bears about as much resemblance to what was available in the 1960s as a rotary dial telephone does to an iPhone.

That was a very interesting comparison. Let's look at it to get the picture of the contrast.

First, we have a picture of a rotary dial phone and then an iPhone. Clearly there's a difference in technology, and we certainly all benefit from those remarkable advances.

Now another picture, a picture I am very familiar with, a picture of the boom used in the Santa Barbara spill in 1969. That was about the era of the rotary telephone. Now here is a picture of the boom used in the Gulf today, 40 years later.

Do you see a big difference between the boom technologies used in these two pictures?

Mr. MCKAY. I don't see a big change in boom technology. There have been tremendous changes in technology in how a boom is deployed and how satellite imagery helps to deploy resources into the best possible places.

Mrs. CAPPS. Yes, they do have satellite imagery now, but that was the era of the rotary telephone. We now live in the era of the iPhone, and it looks a lot on the shoreline of the Gulf as it looked to me in Santa Barbara in 1969. The two cleanup booms, however they are deployed, they look and act pretty much the same, would you agree?

Mr. MCKAY. That's true, although there are absorbent—

Mrs. CAPPS. Let me show you another set of pictures.

Here is a picture of workers cleaning up the oil in Santa Barbara in 1969. Now let's look at a picture of a worker mopping up with his own two hands—bare hands, I should add—oil that had reached the Gulf shore. Again, I don't see a lot of difference in technology between the cleanup in Santa Barbara and the cleanup now under way in the Gulf. In fact, I don't see much difference at all, booms, workers mopping up by hand thousands of barrels of spilled oil.

So, Mr. McKay, I get that the industry spends a lot of time and effort on exploration and extraction and lobbying. But my problem is that you don't seem to have spent very much on accident prevention or on—and you seem to have made few, if any, real developments in oil spill cleanup. We are talking about 40 years later.

So here's my question: What's BP's plan to contain the inevitable accidents from your offshore rigs, the rest of them that are operating out there, the rest of them that are drilling in even harsher and even more difficult conditions? What is it going to look like 10, 20, 40 years from now when there's another huge spill to see booms being lined up in defense for our coast? Is that what we are going to see then? Will we still be relying on thousands of cleanup workers mopping up beaches by hand? Will that be considered state-of-the-art cleanup technology and response like it is today and like it was 40 years ago?

Mr. MCKAY. Well, we have talked a lot about prevention today, so I won't go into that. But in terms of spill response, I think one area that we will learn from this incident is the ability to do more subsidy intervention—

Mrs. CAPPS. Well, OK, but I am talking about the oil that comes to the surface.

Because let me switch to a May 12 Oversight and Investigations Subcommittee and a Transocean document, and I quote from that document: The recovery rate of oil under the best circumstances rarely exceeds 15 percent.

That's 15 percent of all the oil that reaches the surface of the water. It's not a very impressive rate of recovery.

More disturbing is the fact that the rest of the proposed techniques are not particularly effective either. For example, Chevron's—BP's response plan that the chairman held up earlier cautioned that some marsh cleanup techniques destroy, quote, destroy much wildlife and destroy marsh areas.

And here is Shell's oil spill response plan describing an approach that stands out from the rest. Section 13 of the Shell plan states that oil will accumulate on places like sand bars and barrier islands. The plan states that this can be—and again I quote—very helpful and cost-effective as a way of collecting the oil.

So, Mr. Odum, my final question, does Shell really believe that it is “very helpful” when oil washes up on barrier islands?

Mr. ODUM. Clearly not, and I think the statement is simply meant to go to the fact in terms of an ability to stop further encroachment and cleanup, that that's what's intended by the statement.

Mrs. CAPPS. Do you have any other information? If I had time, I would ask each of you. Is this the state of affairs for cleanup today on oil spills?

Mr. ODUM. I do think your—the answer is, yes, you are seeing the deployment of the technology today to respond to this spill.

Mrs. CAPPS. That's the best we can do.

Thank you. I yield back.

Mr. MARKEY. The gentlelady's time has expired.

The chair recognizes the gentleman from Florida, Mr. Stearns.

Mr. STEARNS. Mr. Chairman, thank you.

In 2008, Exxon abandoned, after spending \$180 million, a well called the Blackbeard West, and this occurred when the well's pressure increased to a point that Exxon could not justify the risk of a blowout and decided to put the safety of those workers on the drilling rig and the environment before corporate profits. Perhaps this is what BP should have done.

My question is for each of you, except Mr. McKay, just answer yes or no. Knowing what we know today, in hindsight, about the inconsistent well pressure test readings, would you have proceeded with withdrawing the drilling fluid from the well?

Mr. TILLERSON, just yes or no.

Mr. TILLERSON. No.

Mr. STEARNS. Mr. Watson, just yes or no.

Mr. WATSON. I don't—I can't answer yes or no until we see the full investigation of this report.

Mr. STEARNS. So you would continue drilling? There's only a yes or no here. I am just asking you, knowing what we do, in hindsight, about the inconsistent well pressure test readings, would you have proceeded with withdrawing the drilling fluid from the well? Just yes or no?

Mr. WATSON. Based on the information we have seen, no.

Mr. MARKEY. Mr. Mulva.

Mr. MULVA. No.

Mr. STEARNS. Mr. Odum.

Mr. ODUM. No.

Mr. STEARNS. OK. Let me ask the four of you again. In retrospect now, are there safety measures that your company could have taken to prevent this incident.

Mr. TILLERSON, just yes or no?

Mr. TILLERSON. We haven't had the incident.

Mr. STEARNS. No, but I mean, in retrospect, knowing what BP did, could you have suggested safety measures that would have prevented this incident?

Mr. TILLERSON. They are in the industry standards. They are already there.

Mr. STEARNS. OK, so they are already there and you are saying BP did not follow?

Mr. TILLERSON. At least that's what's been reported.

Mr. STEARNS. So, in your opinion, there are, and the standards are there, and BP didn't follow them.

Mr. Watson.

Mr. WATSON. Based on the information we have seen, yes.

Mr. STEARNS. Mr. Mulva.

Mr. MULVA. Yes.

Mr. STEARNS. Mr. Odum.

Mr. ODUM. Based on the information, yes.

Mr. STEARNS. OK. I think, Mr. Chairman, I think the majority of opinion is that BP acted recklessly and should be held accountable for all the economic and environmental damages that have occurred.

Now, Mr. McKay, on May 12, you testified when I asked you the question based upon the worst-case scenario, you could handle up to 300,000 barrels a day at 10 miles from the shore. So I asked you what was the rate at that moment on May 12, and you said it was 5,000 barrels a day. Do you still stand by that 5,000 barrels a day that you gave me on May 12?

Mr. MCKAY. Well, obviously, that was not right on that day, but that was the unified command estimate.

Mr. STEARNS. But you also testified this morning that your estimate went up to 14,000 barrels a day. Back on May 12, you said internally BP was talking about 14,000 barrels a day; is that correct?

Mr. MCKAY. Not exactly. I said we had a range of 1 to 14 that would transfer to the unified command.

Mr. STEARNS. Did you tell the unified command that you thought it could be as high as 14,000?

Mr. MCKAY. Yes, absolutely.

Mr. STEARNS. So they went—all of you went with 5,000.

Mr. MCKAY. They chose 5,000.

Mr. STEARNS. How many barrels of oil per day are currently flowing from the ruptured well?

Mr. MCKAY. We don't know the latest estimate from the flow rate technical group, which is a government group. We are not in it. It's 20 to 40,000.

Mr. STEARNS. OK. How many barrels per day is the top cap recovering?

Mr. MCKAY. 15.5, 15,500.

Mr. STEARNS. OK, in this case, in retrospect, do you think that because you gave such a low ball that impacted the response team because they thought it was so low?

Mr. MCKAY. No, I don't; and Admiral Allen has answered this question directly. The response has been geared towards a much higher number. We provided every bit of data we can provide as fast as we get it to unified command.

Mr. STEARNS. So how did the estimate go from 5,000 up to, what, 40,000? Even your 14,000 that you estimated May 12 now is 40,000. How did it get from your estimate high of 14 to 40,000 today?

Mr. MCKAY. Well, the flow rate technical group, which is a government group—

Mr. STEARNS. No, I am asking about BP's estimate.

Mr. MCKAY. We haven't done an estimate since the one, the 14.

Mr. STEARNS. So you are saying that your corporation has not even attempted to find out technically how much?

Mr. MCKAY. No. We have given our data to the flow rate technical group, which is under direction of unified area command. Their estimate as of a week or week and a half ago was 12 to 19,000. In the last few days, it has gone 20 to 40.

Mr. STEARNS. Mr. Chairman, I just think that BP has low-balled this figure, and I think—you know what, Mr. McKay? When the buck stops here, means, you know, that you take full responsibility.

Now Mr. Markey asked you for an apology. I really think in light of the performance that you as a CEO and what has occurred, I really think that you should be resigning as chairman of BP America. I mean, it's really outrageous that you sit here and tell us that you are going to punt to the unified command when we have had 11 people killed, we have had a huge environmental damage, and you are still sitting here as the CEO of BP.

Frankly, I would call for your resignation. I am calling for it today. I am not asking for an apology. I am asking for you to resign.

Thank you, Mr. Chairman.

Mr. WELCH [presiding]. I thank the gentleman from Florida.

The chair recognizes himself for 5 minutes.

One of the questions that this whole tragedy raises is BP America's energy policy; and it's time, I think, for Congress to call the question, does America's energy policy work? Is America's current energy policy sustainable?

The United States, as you know, consumes 25 percent of the world's oil. We have 2 percent of the proven reserves. Americans, our businesses and our consumers, spent nearly \$900 billion last year, most of that going to countries that are not our friends.

The current policy that we have works well for some, including the shareholders of the companies represented here today. What you do you do very well, run very efficient operations with some tragic exceptions. But profits increased among your five companies from \$28 billion in 2002 to \$64 billion in 2009, and that's after your companies paid dividends that shareholders appreciated of \$37 billion. And Exxon, I believe, Mr. Tillerson, has repurchased stock in the value of almost \$20 billion.

But the question for Congress—and I am going to ask you to comment on this—is whether we are at a point where taxpayers are being well served when taxpayers are continuing to provide subsidies for a business-as-usual energy policy that's based on a carbon energy 19th century approach versus a clean and renewable energy fuel policy of the 21st century that we need.

And the question really is, should taxpayers in the United States continue to provide billions of dollars to subsidies to an industry, the oil industry, that's mature, to an oil industry that's extremely profitable, into an industry that's based on a carbon-based fuel? Or is it time, finally, for the taxpayer incentives that are being steered to the oil industry to be redirected to efforts to develop a 21st century clean energy economy?

Mr. Tillerson, my understanding, just on a specific tax provision, is that section 199 of the domestic manufacturing deduction provides a tax rate deduction for oil and gas companies. Repealing that would ship \$17.3 billion from oil companies; and it could be directed to clean energy efforts, which your company engages in, to some extent. Would you support the repeal and redirection of that?

Mr. TILLERSON. No, Congressman, I would not. Section 199 tax was put in place to preserve and protect manufacturing jobs in the United States.

Mr. WELCH. All right.

Mr. TILLERSON. I am not sure how to explain to a refinery worker why his job isn't any more or less important than an auto-worker's job.

Mr. WELCH. This is not about whose jobs is important. The jobs that are important are the folks that are down there in the Gulf Coast and are losing their jobs because of this catastrophe that just happened. This is about whether taxpayer subsidies are going to help Americans get jobs and an energy policy for the future.

Mr. Watson of Chevron, I'll ask you. My understanding is the Tax Code right now provides oil and gas companies to expense intangible drilling costs. That cost taxpayers \$7.8 billion over 10 years. Do you support continuing that or would you support repealing it or redirecting it to clean energy efforts.

Mr. WATSON. I support continuing it, and I don't consider it a subsidy. I consider it similar to many other provisions in the Tax Code that dictate the timing of the deduction.

Mr. WELCH. Well, you know, I have one question. I believe in tax incentives, but I question whether they should go to mature industries and industries that are profitable. They've managed to get their sea legs. And your industry enjoyed profits of \$68 billion, hard work of a lot of people. But do we need in America to be starting to use taxpayer money, which is what these subsidies are, to help us move to a clean energy economy that is sustainable and

does not have the risk of these catastrophes that are causing people their lives and their livelihoods.

Mr. Marvin, do you have a view on this?

Mr. ODUM. I do, and I think—if I go back to where you started, I think it is time for Congress to take a comprehensive review of energy supply to this country. I think part of that would be then, in addition to all the alternatives and renewables that I talked about in my opening statement, I think it would recognize the importance of oil and gas.

Mr. WELCH. OK, thank you.

My last question. Mr. McKay, there was a report by the U.S. Chamber of Commerce, Mr. Donohue, who said last week that he believed that the taxpayer should help BP pay for the cost of this spill. BP official testimony is you're going to bear the burden on this. Do you repudiate the suggestion by the United States Chamber of Commerce that the taxpayer participate in the cost of this cleanup?

Mr. MCKAY. We're going to pay for all costs, all costs of the cleanup.

Mr. WELCH. Thank you.

The chair recognizes Mr. Whitfield.

Mr. WHITFIELD. Thank you, Mr. Chairman, and thank you all very much for being with us today.

As I've listened to the hearing and your testimony today and articles that I've read in the paper, whether or not they are truthful or not, I don't know. But there are reasons to believe that there were advance warnings given about problems with this particular well; and I say that because of all of these things that I've heard, the testimony here, articles I've read, the letter from the chairman of the committee, and when you think that it is alleged that a BP employee said that this is a nightmare well, there were concerns expressed by well design, the number of centralizers, the cement process and so forth.

So I would ask you, Mr. McKay, as the President of U.S. BP, were you aware of any of these concerns or problems that existed with this well prior to it blowing?

Mr. MCKAY. No, I was not.

Mr. WHITFIELD. And are you aware of anyone on your staff that may have been—had knowledge of this?

Mr. MCKAY. I think what the investigations will determine is the interplay between data that was known, decisions that were made, the processes that were followed on the rig and in the equipment that worked or not. So that's part of the investigation. These are big questions. They are important questions.

Mr. WHITFIELD. From your own personal knowledge, you're not aware of any of that?

Mr. MCKAY. No, no.

Mr. WHITFIELD. Now when you consider all the steps that have been taken to try to stop the flow of this oil—the coffer dams, the tie kills, the dispersants, the relief wells, all of these things—and all of you are experts in this field, and we value your views. And if all of these efforts that are being made do not work, is there any way that any of you could guess as to how long this oil might flow? Do any of you have any ideas on how long this could go on?

Mr. MCKAY. Could I just say that the relief wells that are under way will be—first of all, we're going to try to contain as much as we possibly can; and that's going to increase in capacity, redundancy, and resiliency for hurricanes in the next few—3 weeks, 4 weeks. The first relief well should be down by mid-August, and that should permanently secure this well.

Mr. WHITFIELD. So if the relief well works then mid-August, that should be the end—

Mr. MCKAY. And we have redundancy with a second relief well. Should we need it, we could sidetrack both of those wells for other attempts, but we believe that we will get it mid-August.

Mr. WHITFIELD. Because I was reading an article about a well referred to as IXTOC 1, which I think was back in 1978 or '79, which was in the Gulf; and evidently in that well the oil flowed from June of '78 to March of '79. Are any of you familiar with the history of that particular well blowing in the Gulf? Are you aware of the facts of that?

Mr. MCKAY. I don't have depth of knowledge, but I understand that that was a well in Mexican waters in the Gulf of Mexico. It did go for about 9 months. I believe it was a jack up—a jack up, and the rig collapsed partially on top of the blowout preventer.

Mr. WHITFIELD. It was not a deepwater well?

Mr. MCKAY. No.

Mr. WHITFIELD. OK, but I understand that that well—there was 3.3 million barrels of oil.

Mr. MCKAY. That's what's reported.

Mr. WHITFIELD. I yield back the balance of my—one other question, one other question.

I think I know the answer to this, because I think you have indicated that you had a policy that any individual or contractor would have the authority to stop the action on the well; is that correct?

Mr. MCKAY. That is correct.

Mr. UPTON. Would the gentleman yield?

Mr. WHITFIELD. Yes.

Mr. UPTON. Mr. McKay, you said that anyone on the rig had that authority. Is there anything that you disagree with in the conclusion in the letter that was sent to—that the oversight subcommittee did that they sent to Mr. Hayward just yesterday talking about the lack of a lock-down sleeve, the failure to circulate drilling mud, no cement bond log, and two few centralizers? Do you quibble with any of the findings in this letter?

Mr. MCKAY. Yes, I've not been able to go through that letter yet, but what I would say is we identified for the O&I subcommittee some of these issues and in our investigation, and what we said is those all have to be evaluated. And I believe the investigations will get to put this chronology together such that we can understand.

Mr. UPTON. Let me say if the findings in this letter are accurate, how many folks on the rig had the authority to actually stop the work? Everyone? Anyone?

Mr. MCKAY. I was speculating on Transocean, OK? But we had seven people on the rig. Two or three were trainees. So we had four or five people on the rig.

Mr. UPTON. So did all—so you only had four or five folks on the rig that had the stop work authority?

Mr. MCKAY. Those are the sum total of BP employees on that rig.

Mr. UPTON. But all of them had the authority to say stop.

Mr. MCKAY. Every BP employee has that authority. That's right.

Mr. UPTON. And did any of them say stop?

Mr. MCKAY. I don't know. I don't know.

Mr. UPTON. I'm led to believe that there was at least one BP supervisor who is taking the fifth. I don't know if that's accurate or not. Is that accurate?

Mr. MCKAY. I don't think it is perfectly accurate. I think when they asked him to have a hearing last month—I believe, this is—maybe I shouldn't even say this, but I think his attorney advised he wasn't ready, and they could reschedule. And I don't know what his situation—

Mr. UPTON. Do you know whether he actually said stop?

Mr. MCKAY. I don't know that.

Mr. UPTON. I yield back.

Mr. WHITFIELD. Mr. Chairman, I yield my 27 seconds to the gentlemen from Texas.

Mr. BURGESS. Mr. McKay, a question I just have to ask you, any good interventional radiologist can put a catheter in places that are hard to get to and do kill shots and inflate balloons. Has anyone in your engineering staff looked at the concept of putting something down this stem riser and inflating a heavy duty balloon just to give you a short period of time to put some cement and heavy weight mud on top of it to kill this thing off?

Mr. MCKAY. Yes, but we have drill pipe that's inside the blowout preventer, and it is crimped. And there's a torturous path in the blowout preventer, it would appear, very torturous. That was the purpose of junk shot, was to try to clog up the blowout.

Mr. BURGESS. But you couldn't stop the flow of stuff coming up. But if you inflated something that rapidly put some compression on the flow below, then you would have a chance to get something on top of it to try to get it stopped.

At this point, almost anything is worth a shot. You had Mike Huckabee on TV the other night. He had a litany of people coming in who wanted to do things to help.

This is one of the things that's frustrating us. Mr. Markey is making us watch this thing 24 hours a day on our computer screen savers, and people are coming up with ideas, and there is no place for them to go to get the ideas vetted and tried.

I yield back. Thank you, Mr. Chairman.

Mr. MARKEY [presiding]. The gentleman from Kentucky's time has expired.

The chair recognizes the gentleman from Texas, Mr. Gonzalez.

Mr. GONZALEZ. Thank you very much, Mr. Chairman.

Mr. McKay, it is obvious that your colleagues in the industry are saying that what BP did in the way of drilling would not have been the same procedure they would have followed. I believe that's what they—to the person—to the witness have said. Why would—it seems like all of you are on the same page when it comes to how you contain and clean up, but you're not on the same page when it comes to on how to drill.

And then your whole theory today is—not BP's—is that we would have done it differently. It would have never have happened. So I would have loved to have seen the same uniformity in adopting the more safe manner so this would never happen. There is a whole lot more to this story, obviously; and it will develop.

Mr. McKay, why would all these individuals have a taken different route in the way they would have drilled?

Mr. MCKAY. Well, I can't speak for them.

What I can say is part of what these investigations will determine is what were the procedures that were used, the design of the well, the procedures that were used to execute the well and the equipment on the rig and how did it perform and how did decision-making and data flow. I think then those will be the design and things like that will be compared to industry norm, and we'll see if that's outside of normal or not.

And then, undoubtedly, in an accident of this type and severity there will be a combination, I believe—this is speculative—of decisionmaking processes and equipment that interplay to allow this to happen.

So I think these questions about what's normal, what's not normal, what's unusual, what's not unusual, that's going to come out in the investigations. And, to my knowledge, the well design is not an unusual design for the Gulf of Mexico.

Mr. GONZALEZ. I realize you have Transocean doing the work, and you've got Halliburton that's basically going to cap after the hole is drilled and so on, and I'm sure it will be an interesting situation when it is all said and done. Because I know you're the responsible party under certain statute. But when it is all said and done I'm sure that you will be seeking some indemnification from others.

I'm going to ask the other witnesses—just yes or no; this is somewhat rhetorical—can you guarantee to the American public and our constituents that any of your drilling operations are free from a similar accident as Deepwater Horizon? And just yes or no, 100 percent assurance, 100 percent.

Mr. TILLERSON. Congressman, I'm not sure we know all, all of the aspects of the Deepwater Horizon incident yet.

Mr. GONZALEZ. No, I understand that, but—

Mr. TILLERSON. What we can assure you is that the designs and the procedures and the processes we have in place, when carried out, would prevent this from happening.

Mr. GONZALEZ. Mr. Tillerson—and here is where I'm going to lead the witnesses—you cannot give 100 percent assurance of anything in our lives. And I think the American public want to hear you guys just come out and say, yup, there's risk. Gee, surprise.

Mr. TILLERSON. There is risk. There are no guarantees in life.

Mr. GONZALEZ. That's all I want to know. Yes or no, can you give me 100 percent so I can go back home—

Mr. TILLERSON. No, I cannot.

Mr. WATSON. I believe Chevron operations are safe.

Mr. GONZALEZ. One hundred percent certain. This is a simple question, and if you guys were in the courtroom, you know there would be a judge saying yes or no, and it's a simple question.

Mr. TILLERSON. I believe our operations are safe. We're drilling deepwater—

Mr. GONZALEZ. One hundred percent, I can go back and say that your operation, no matter where it is, in the Gulf or elsewhere, is 100 percent safe, that this could never, never replicate itself.

Mr. WATSON. I believe our operations are safe.

Mr. GONZALEZ. One hundred percent, that's what makes it so hard to the American public, gentlemen, for us to go out there and tell them something that they know can't possibly be true. Because it doesn't apply in any other aspect of life or business.

I'm a proponent of offshore drilling. I've had this debate with Mrs. Capps since the day I got here. You all are not making me look good.

Can I just go—100 percent. Come on, you guys. I mean, seriously, how can you say yes? But if you want to say yes, say yes. We can all go back, Mr. Chairman, and tell them we had witnesses from leaders in the industry that can actually tell us they are 100 percent sure this would never happen again.

Mr. WATSON. Congressman, I indicated that we have effective procedures. I didn't—

Mr. GONZALEZ. No, sir, it's fine. You're saying—to me, that's 100 percent. I'm gratified.

Mr. MULVA. No, nothing is 100 percent failsafe.

Mr. ODUM. Not 100 percent safe. It's what we focus on every day, though.

Mr. GONZALEZ. The reason I'm for exploration domestically is because we depend on more than 60 percent of our oil from foreign sources, which is a national security threat. But we can do it safely—I started off in opening statement that we can explore and produce and do it in a safe way that they are not mutually exclusive.

In this country, we have more than a third of all cars and light trucks in the world. By 2020, we probably still will be selling 62 to 70 percent of our cars fueled somehow—operated in part by a fossil fueled engine. That's why it is so important. But we have an obligation to this country to say that we're going to do it in a safe manner. That's all we're trying to do here.

You are the guys that are the experts. You have the resources, the assets, and the knowledge. You are going to have us decide for you, if, in fact, you don't really get engaged, until we can go back to the American public and tell them with a straight face that we are doing everything that is humanly possible to make it safe and if there is an accident that we can clean it up.

Thank you very much, Mr. Chairman.

Mr. MARKEY. The gentleman's time has expired.

The chair recognizes the gentleman from Louisiana, Mr. Scalise.

Mr. SCALISE. Thank you, Mr. Chairman.

Mr. McKay, I first want to take issue with the statement you made earlier when you said the spill response has been pretty effective. I just spent Friday on the ground in Grand Isle, which, as you know, is one of the epicenters of the disaster that's coming into not only the beaches but the marsh. They are trying right now to put a plan together to protect Barataria Bay, which is an area

where they are starting to get oil behind the boom into some of these fragile marshes and ecosystems.

We don't want to sit back and wait until the oil comes in to clean it up, and in some cases you may not be able to clean it up for years. We want to be proactive, and we have been submitting plans. In fact, 75 percent of the plans submitted by our Governor to have the sand barriers in place have not been approved. So when you hear local officials saying they are spending more time fighting BP and the Federal government than fighting the oil, that's not what I would classify as pretty effective. So please go back and redouble efforts and do everything you can to work with our local leaders who have plans and are being blocked by BP and the Federal Government from getting those plans implemented.

That's when it will be effective, when everything is moving by the speed of light. It takes right now at least 5 days in some cases to get answers on questions. That's unacceptable. So I would appreciate it if you'd look at that.

I want to ask you about the relief well. Are you using the same method to drill the relief well as you used for the original Horizon well?

Mr. MCKAY. Well, the design of the relief well is very, very similar to the original well.

Mr. SCALISE. Clearly, that well failed. It was a miserable failure. You had 11 people die. Are you still using that same method or have you changed the method of drilling?

Mr. MCKAY. That design has been reviewed over and over with the MMS. The failure of the original well I think is going to be a complicated set of decisions, equipment, and processes. The relief well, I believe, is safe.

Mr. SCALISE. Well, let me ask you, the last time you testified I had asked you about disagreements on the rig. In fact, I had given you a report that you said you hadn't read at the time—now you've had some time to read it—where there was a disagreement reported in the media between the head of operations on the rig for BP versus the head of operations for Transocean. Did that disagreement occur? Were there disagreements?

Mr. MCKAY. I believe in the Marine board hearing a couple weeks ago that individual from Transocean said that did not occur, that actual individual.

Mr. SCALISE. OK. So we'll see more, because more reports continue to come out that contradict that, but we'll see.

I want to go down the line with the rest of the panelists, starting with Mr. Tillerson. How deep in the OCS do you currently drill? What's your deepest well?

Mr. TILLERSON. I assume you're talking about water depth?

Mr. SCALISE. Yes.

Mr. TILLERSON. We've drilled up to 8,700 feet deep.

Mr. SCALISE. Eighty-seven. Of course, the Horizon was 5,000. So you're 8,700. Any incidents there? Any blowouts?

Mr. TILLERSON. No.

Mr. SCALISE. Mr. Watson.

Mr. WATSON. I'll have to check on the exact depth.

Mr. SCALISE. Deeper than 5,000.

Mr. WATSON. Yes.

Mr. SCALISE. Mr. Mulva.

Mr. MULVA. Deeper than 5,000.

Mr. SCALISE. Mr. Odum.

Mr. ODUM. Deepest approach which is 10,000.

Mr. SCALISE. Ten thousand. No incidents? No blowouts?

So as we look at all of these other reports that are coming out, you look at the reaction, it still boggles the mind that, with the exception, I think, of one of you, that the President hasn't talked to those of you who are drilling in deeper water and doing it in a safe and effective way with safety as a top priority.

Who actually reviews and approves those regional response plans that we heard about earlier, Mr. Tillerson?

Mr. TILLERSON. Well, those would be developed—you're talking about internally.

Mr. SCALISE. When you all submit those, who do you submit them to for approval?

Mr. TILLERSON. Well, they go to the MMS.

Mr. SCALISE. Well, MMS signs off on them.

Mr. WATSON. MMS.

Mr. MULVA. Yes.

Mr. ODUM. Same.

Mr. MCKAY. Yes, MMS.

Mr. SCALISE. Now if MMS, who is the Federal regulator, signs off on these plans that by the chairman's own admission are flawed, why isn't MMS at this table? We have yet to have a hearing with the Federal regulator who had an equal role in this disaster. Four of you had absolutely nothing to do with this disaster, and you're here giving your time to testify. Yet the Federal regulator who is directly responsible for approving these plans, who actually sits there and approves the plan, who approved the inspection, the blowout preventer, has still not testified before this committee.

I think there is no excuse for that. If we're serious about getting to the bottom of this instead of playing politics, we would have the Federal regulator here where we can talk to them about real things that they did to approve these plans that failed us; and that still hasn't happened.

Finally, I want to get to the Secretary of Interior's report that came out that actually led to this ban on drilling. And we had a copy from the majority of scientists on the President's own commission that they were using—the Secretary of Interior was using as his basis for banning drilling, actually wrote a letter and came out and said, "We believe the report does not justify the moratorium as written. Indeed, an argument can be made that the changes made in the wording are counterproductive to long-term safety. The Secretary should be free to recommend whatever he thinks is correct, but he should not be free to use our names to justify his political decisions.

A majority of the members of that commission that the Secretary of Interior and the President are hiding behind for the 6-month ban.

Again, the President's got to stop playing politics and putting politics over science and actually focus on his job under the Oil Pollution Act which should be directing the response.

Mr. McKay, your job should be paying the bills; the President's should be the quarterback on the field. Our local leaders shouldn't have to go to you to get approval to protect the marsh. That's something the President should be directing you to do. That still isn't happening. That's something that needs to change.

I would like to ask unanimous consent to submit this for the record, this letter from a majority of those members of the Department of Interior's panel.

Mr. MARKEY. Without objection, it will be included in the record. [The information appears at the conclusion of the hearing.]

Mr. SCALISE. Thank you, and I yield back.

Mr. MARKEY. The gentleman's time has expired.

For the record, we have had testifying before the committee the Department of the Interior, NOAA, EPA, Coast Guard——

Mr. SCALISE. Would the gentleman yield?

Mr. MARKEY [continuing]. As well as David Hayes, who is the Deputy Secretary of the Department of Interior.

Mr. SCALISE. Would the gentleman yield?

Mr. MARKEY. I'm glad to yield.

Mr. SCALISE. The only day that we had actual testimony scheduled by the Secretary of MMS was the day that the Secretary was conveniently fired. Why haven't we had an opportunity to reschedule and have MMS come before our committee? They are the ones who signed these reports. They signed those plans. They won't give us still the information on the blowout preventer test that was done——

Mr. MARKEY. You are right that it was the day that that person resigned. But, at the same time, the person who did come to substitute was someone who is higher in the rankings inside the Department of Interior, David Hayes.

Mr. SCALISE. But doesn't work for that agency.

Mr. MARKEY. The chair recognizes the member of the subcommittee, the gentleman from New York, Mr. Engel.

Mr. ENGEL. Thank you very much, Mr. Chairman.

And let me just say I find it incredible that some people want to blame the President. The same people who want smaller government and don't want the President to intervene against private industry are the same ones who say the President should intervene and should somehow do something. I think tonight we'll hear the President saying a lot of important things, and we will see that he is trying to do a great deal.

Gentlemen, I want to read some quotes and ask you to comment on it, that some of you made.

Mr. Tillerson in 2006 you said, and I'm quoting, "Industry has developed the technologies and acquired the experience to produce these resources safely and with a minimal environmental footprint."

Mr. Mulva, in 2009, you said, and I quote, "Our industry, our company we believe that we have the capability and the experience that we can develop these resources and not in any way really compromise safety and environmental performance."

In 2005, David O'Reilly, who was then CEO of Chevron, told Congress that all of the offshore areas closed to oil drilling "can be developed with minimal environmental impact."

And, Mr. McKay, in 2009, you told Congress, "For those who continue to question the safety of offshore energy operations, I can only point to our record in the Gulf of Mexico."

Gentlemen, if we can't believe what you said in those days, how can we believe anything you say now and anything you're going to say in the future? I mean, we were given assurances that everything would be fine. I know that accidents happen, but this is one hell of an accident. Why should we trust the industry to give us assurances when those assurances apparently mean nothing? Anybody have an answer to any of the quotes?

Mr. TILLERSON. Congressman, I stand by my statement with respect to Exxon Mobil's performance.

Mr. ENGEL. Do you believe that the industry's developed the technologies and acquired the experience to produce these resources safely and with a minimal environmental footprint?

Mr. TILLERSON. When the standards and the processes and the procedures that have been developed by the industry are followed, that has been the case.

Mr. ENGEL. Well, how can we feel comfortable that the processes and technologies will be followed? Obviously, it wasn't followed here.

Mr. TILLERSON. You're asking me or someone else?

Mr. ENGEL. No, I'm asking you.

Mr. TILLERSON. We didn't have the problem. I can't answer that.

Mr. ENGEL. Well, let me ask Mr. McKay. Perhaps he can answer that.

Mr. MCKAY. The tragic accident that has happened here I think is going to have a combination of factors which are going to be decisional process and equipment. The investigations are exceptionally important to understand how that chronology works and what caused this accident.

I do have confidence that we will understand what happened here. I do have strong confidence in that. I also believe that there will be improvements made because of those learnings such that the industry can get back to work. I think that can happen pretty quickly.

Mr. ENGEL. Mr. McKay, let me ask you this. What really infuriates the American people and infuriates me is after the accident every single day it seemed that BP was trying another technique, another method of trying to plug the hole, and each time it failed. It's mind boggling for me or for anyone else to understand why there were not safeguards in place, technologies in place, modes of operation in place so that if a disaster happened you would know immediately what to do.

Mr. MCKAY. Unfortunately, this particular incident occurred where the lower marine riser package did not disconnect from the blowout preventer so we have a package on top of that preventer. We had 4,300 feet of riser off the top of that kinked, and the access to that to be able to do anything from the top from that blowout preventer has been prevented.

Mr. ENGEL. But that never occurred to anyone beforehand that that might happen?

Mr. MCKAY. Not in that way. I don't think anyone could predict that. That package is supposed to release from that blowout preventer, and it has not.

Mr. ENGEL. Well, doesn't this mean that oil drilling is inherently risky?

Mr. MCKAY. There's risk—as was mentioned a few moments ago, there is risk in everything. But I do think the systems and the technology that is available to the industry and will be improved through the learning here, the resources—the important resources here can be developed.

Mr. ENGEL. Why do these disasters seem to only happen in the U.S.? We had the Exxon Valdez 20 years ago, and now we have this. There is drilling all around the world, in the North Sea, all over. We don't hear about tragedies like this. Are the oil companies in the United States cutting corners?

Mr. MCKAY. No, I would say, unfortunately, there are tragedies around the world. Probably the worst rig disaster in history was in the North Sea. So, unfortunately, these things happen around the world; and we have to improve from each and every one of them. I think that's what the industry tries to do.

Mr. ENGEL. So doesn't it prove my point that oil drilling is inherently risky? There could always be a disaster?

Mr. MCKAY. I don't think always. I think the track record overall in the industry is very strong, but we have issues like we've had this tragic accident we've got to learn from.

Mr. ENGEL. Well, I don't hear anybody saying "drill baby drill" anymore and for good reason. I think it is absolutely ridiculous that this could happen and that there's no response that's satisfactory.

Thank you, Mr. Chairman.

Mr. MARKEY. The gentleman's time has expired.

We now turn and recognize a member of the full committee, the gentleman from New York, Mr. Weiner.

Mr. WEINER. Thank you, Mr. Chairman.

Mr. McKay, I wonder if we're all on this panel not saying essentially the same thing and that is that BP shouldn't be in charge of anything in this operation anymore. That Mr. Scalise and many on our side have said in different ways there is very little credibility that BP has in telling us what's going on. The numbers have been wildly underestimated, as Mr. Markey's questions earlier pointed out.

It is pretty clear that you're conflicted when it comes to settling claims with people who have been victimized by your negligence. You don't want to pay. You want to pay less. They want to get more.

It seems that your control over the access to the media, to the location, you're conflicted. You want to portray this in a certain way. Members of the media want to try to find out whether you're telling them the truth or not. And that even people who have expressed frustration with the President basically are saying, why do you trust these guys to do anything? You should get in there and do it yourself.

I think that it comes down to this basic notion that was reinforced today when the four gentlemen to your right basically said

that a well-managed company that was doing things responsibly wouldn't have had this problem because they would have taken the information that Mr. Waxman and Mr. Stupak released yesterday. They looked at it and said clearly that corners were cut and that there is no credibility in what—in even the basic elements of how this thing was done.

I wonder what you would say to the American people who open up the newspaper and say, well, BP says—dot, dot, dot—why any of it should be believed. What have you done to establish any level of credibility here?

Even your supporters, even the people who will go to their political ends saying “drill baby drill”, even they are saying, hey, the President is responsible because he trusted those knuckleheads in BP. I mean, I don't understand why on any level going forward you all should be in charge of anything.

So let's go one by one.

Why should the claims process be under any control of British Petroleum? Why shouldn't we just take the money that is going to be paid out in claims in the billions of dollars and give it to someone independent of BP to say which claim is legitimate and which one is not? Why should BP have it in their control at all over what claims they pay?

Mr. MCKAY. We have been very clear from the start we're going to pay all legitimate claims. So that's point one.

Point two is we set up a claims network.

Mr. WEINER. Who do you think should determine who is legitimate?

Mr. MCKAY. We are following OPA guideline under OPA 90.

Mr. WEINER. Do you believe that BP is conflicted at all in deciding whether or not BP should pay money that BP is going to have to pay to victims? Do you think you're conflicted at all?

Mr. MCKAY. Not—no, not—

Mr. WEINER. I think that walks the line actually of being a rhetorical question. You're clearly conflicted.

Let me ask you about access to the media or experts on trying to learn what's really going on there. Now there have been some reports that in the process of trying to get access you had to check—a member of the media would have to check with BP whether to get access to the largest environmental disaster ever created by BP. Now do you think that you're conflicted at all in having any decisionmaking role at all about whether BP should be able to give access to an environmental disaster created by BP?

Mr. MCKAY. Well, I'm not familiar with the protocol for access. That goes through unified command. So—

Mr. WEINER. So under no circumstance should any member of the media or any expert who wants to try to get the information themselves ever have to call BP to get clearance to do it.

Mr. MCKAY. No, I didn't say that. Because they may be acting under instructions of unified command. So I—what I'm saying is I don't know the protocol for that.

Mr. WEINER. Well, whether someone somewhere thinks that you should have that is not the question I'm trying to get into now. What I'm trying to understand is whether under any circumstance

anywhere in the decision tree should be anyone who has been so horrible at making decisions.

I mean, the one thing we know from this hearing with metaphysical certitude is that BP created this problem through their own negligence and their own cost cutting, their own corner cutting. It is not just someone like me who believes that we should be reducing the amount of drilling that we are doing. The gentleman to your right, who believes you should be doing more of it, and even they say you have done that.

So the question is, in this entire context, why should the American people at any time when it says BP says dot, dot, dot, not immediately take up the newspaper and throw it over their shoulder because there is no credibility on it? And if we don't believe that there's credibility why is there any decisionmaking left in your hands?

And I think, Mr. Chairman, you know, what we have is there are opportunities now for us to not remake the same mistake over and over again. If we know they are conflicted about being truthful with information, any access to the media, access of experts to the American people to what's going on there should not go through BP. If we know they are conflicted about wanting to understate costs—that's the basic element of a corporation. They want to take in as much as we can, give out as little as they can—why is there any role to play in claims? And then becomes why should there be any decisionmaking ability on your part at all here?

And that's one thing my Republican friends who want to criticize the administration for not doing enough, maybe we agree. Maybe we do need to have BP involved in a heck of a lot less anything to do with our environment, anything to do with our citizens going forward. Because while you're sitting here saying over and over again that we are going to pay all legitimate claims, my question is, who determines legitimate? I think it should be the American people and not you.

I yield back, Mr. Chairman.

Mr. MARKEY. The gentleman's time has expired.

By unanimous consent, we're going to recognize two members who are not on the committee but who represent the Gulf of Mexico. We will begin by recognizing the gentleman from Louisiana, Mr. Cao.

Mr. CAO. Thank you, Mr. Chairman.

Mr. Chairman, the oil disaster has caused great economic impact to my district. Hundreds of businesses have closed, and thousands are out of work.

Mr. Stearns asked Mr. McKay to resign. Well, in the Asian culture, we do things differently. During the Samurai days, we just give you a knife and ask you to commit Hari Kari. My constituents are still debating on what they want me to ask you to do.

But, with that being said, the cleanup process has been a disgrace. The claims process has been dismal. And 1 week into the oil spill I approached BP about establishing a trust account, and I received no response. Now that the President's asking you to establish an escrow account, what would be your response?

Mr. MCKAY. I don't think any decisions have been made on a trust account. We've been clear, as I said, that we're going to pay

all legitimate claims; and the whole company is standing behind that. So a decision on whether to do a trust fund or account I don't believe has been made yet.

Mr. CAO. I've been approached by hundreds of constituents who said, I am legitimate and BP is saying that I'm not legitimate. How do you respond to them?

Mr. MCKAY. I don't understand the individual claims. If the claims had been submitted, had they been rejected?

Mr. CAO. Well, they have not been rejected, but they have been delayed. And people, when their livelihoods are on the line, they cannot afford to be delayed.

Mr. MCKAY. I can't answer the question. I know if there are issues with claims that we should talk about off-line, I would be glad to do that and get our claim experts to come see you and try to understand those claims.

Mr. CAO. Now, I want to ask a question to the panel. Because the moratorium is affecting Louisiana in a very tremendous way, and I would like to ask you, do you have the technology to know exactly where the oil reservoir is? Do you have the technology to know that? In other words, do you know how deep you have to drill before you tap into an oil reservoir?

Mr. ODUM. Let me say to a reasonable high degree of accuracy, yes.

Mr. CAO. What would be reasonable? Ninety, ninety-five percent?

Mr. ODUM. I would actually have to get an expert to tell you in the Gulf of Mexico how many foot above or below would be the range, but it is pretty close.

Mr. CAO. But, generally, what risk exists if you were to drill a well partially? Would there be any risk involving that and not tapping into the reservoir? Would there be tremendous risk, minimal risk? Is there a risk of having a blowout, as we did with the Deepwater Horizon?

Mr. TILLERSON. Congressman, in response to an earlier question, I commented that most of the—a lot of the well control issues and blowouts have occurred prior to ever reaching the objective. Shallow gas hazards, overpressured saltwater zones can lead to well control problems. The difference is you would not be having a lot of oil spilling out of the well, but you would still have a blowout condition. You might have natural gas coming out instead. So there is risk. It is a risk management process to drill the well to the objective.

Mr. CAO. Now, if I were—in order to I guess address two concerns, one, the administration's need to have additional time to implement safety procedures and protocol, but, on the other hand, I'm facing the prospect of losing thousands of jobs in Louisiana because of the moratorium, would allowing companies to drill partially and not allowing them to tap into the oil reservoir, would that create tremendous risk?

The reason why I'm looking into this possible solution is to, on the one hand, allow the administration the time to do all the safety checks but at the same time trying to keep the rigs from not going anywhere else. Because there is at this present moment a high demand for these rigs; is that correct.

Mr. WATSON. I have seen a proposal by Senator Landrieu to allow certain drilling operations take place. And we think it is important to put the industry back to work. As we said earlier, the industry, through the Joint Industry Task Force, has made recommendations and the Department of the Interior has made recommendations that can be employed.

One of the things that I could comment on is, as we raise standards, it is important the MMS be adequately staffed to approve revised permitting procedures that are being put in place.

Mr. CAO. Thank you. I yield back.

Mr. MARKEY. The gentleman's time expired.

The gentlelady from Texas, Ms. Jackson Lee, is recognized.

Ms. JACKSON LEE. Thank you very much, Mr. Chairman; and thank you for your courtesies.

Some of us, as the chairman indicated, come from the region where so many constituents are impacted every single day by the conditions that we now face. Reminded that in the Gulf area we consider ourselves family. So many of my constituents are, some way or another, related to the energy industry.

The gentlemen that sit before me really have a major opportunity that I think has been characterized by my colleagues who have questioned you today. There is certainly a high degree of mistrust by the American people, although after 9/11 and the horrific tragedy and terrorist act Americans did get back on airplanes and seem to buy into the fact that this is part of the American life.

I think you have a major challenge because you are looked upon in a distance. Maybe we know you somewhat in our local communities, but most of America has no stake in the energy industry. They don't know you.

Most of the discussion on national energy policy is a divided discussion. Your lobbyists appeal to those on the other side of the aisle when they think it is appropriate and castigate some of us on the other side of aisle.

So I would like to raise the question of really making the decision of national energy policy an American discussion, where we're not characterized from region, what political party we're from, what ethnic background we're from, but we really come together and begin to assess how we can restore the faith to the American people that this is an industry that is part of our national security.

You have failed. You have patently failed. You don't know us, and you don't want to know us.

And so I'd ask this question very quickly. The main visual that is being shown shows the oil in the water. My question would be to each individual here, what would be your willingness of an investment in an R&D fund that would address immediately the question, and long term, of this question of oil in the water, the oil in the water now beyond the explosion and the tragic loss of life?

And let me stop for a moment, again having met some of the victims' families, to offer again my deepest sympathy, as I did during the Texas City incident when some of my constituents were working there.

But what is the investment that you would be willing to make on R&D on this question of oil in the water?

Can I quickly ask Mr. Tillerson and, because my time is short, to go down the line in an answer.

Mr. TILLERSON. Well, Congresswoman, there is—we already spend money. There are academic studies under way. There are government-funded studies under way. And I think something the Presidential commission should consider is accumulation of what all currently is under way in the area of oil spill research and containment and cleanup and see if that's really being spent on the right things. And the commission I think can play a useful role in accumulating that, in determining whether that research needs to be better focused based on what we learned from this incident.

Ms. JACKSON LEE. Because my time is short, why don't I just say, would you be willing to have a fund set aside for R&D, just yes or no?

Mr. WATSON. We are willing to participate, yes.

Mr. MULVA. Absolutely we are willing to participate.

Mr. ODUM. Yes.

Mr. MCKAY. We've announced that we're doing a fund, \$500 million.

Ms. JACKSON LEE. Yes or no as to the willingness of the industry to come together and to design expanded and more detailed and more technically sophisticated recovery plans. Mr. Tillerson, yes or no?

Mr. TILLERSON. I think, based on what we learned from this, we will all want to do that.

Ms. JACKSON LEE. Just go down the line.

Mr. WATSON. Yes.

Mr. MULVA. Yes.

Mr. MCKAY. Yes.

Ms. JACKSON LEE. There is a cap on liability; and, of course, there are a number of legislative initiatives that are moving forward to remove the cap. I want to know whether the industry would support the removal of that cap longstanding. Mr. McKay.

Mr. MCKAY. I haven't looked at all the policy around the different bills and ideas, but we have set up for this incident for us where that cap is irrelevant.

Ms. JACKSON LEE. May I have all the—

Mr. ODUM. I do think it is time to relook at the whole program, don't have a proposal on the cap.

Mr. MULVA. Yes, I think we should look at considering raising it, but we need to do it in a way with informed judgment.

Mr. WATSON. We need to look at raising it in a way that will make it compatible with the appropriate amount of development that the Congress and the administration desires.

Mr. TILLERSON. I think, based on the incident, the whole question of the oil spill liability trust fund needs to be revisited; and I think we want to understand so what is the purpose of that trust fund and therein would give us some guidance on how to set that cap.

Ms. JACKSON LEE. Thank you.

Mr. McKay, just very quickly, there are e-mails in our materials that call the well a crazy well, someone else making comments about they were nervous. There is a problem with the claims process, and I think you have to own up that it does not work.

I'm asking you, Mr. McKay—Mr. Haber will be before the committee. Quickly, will you please answer, the establishment of a separate claims process, escrow to be able to make determinations, I don't think you can make determinations on what is legitimate. Oystermen and others and restaurants are all in shambles. Would you see to that? Would your company consider that, a separate claims process from BP?

Mr. MCKAY. What we've said is we're going to get an independent mediator to help us, and we're looking at other suggestions to improve it. I can't say yes or no.

Ms. JACKSON LEE. Thank you, Mr. Chairman.

I don't think that will work. I think we're dying in the Gulf. Beyond getting back to this issue of the moratorium, you have companies and restaurants that are shut down and people losing their jobs. You've got to improve the claim system, and you need to move now. Thank you.

Mr. MARKEY. The gentlelady's time has expired.

The chair makes a unanimous consent request to allow all members of the committee to submit questions for the record.

Without objection, so ordered.

This has been a historic hearing, but we are in a historic time. This is the single worst environmental disaster in our country's history, and the American people want to know how it happened, why the response is so inadequate, and what we are going to have to do in order to ensure that it never happens again. That is why the attention of the American people is riveted on this issue and you gentlemen who are the CEOs of the largest oil companies in our country.

Mr. Tillerson said that you are not well equipped to deal with these sorts of spills. With all of the billions of dollars you make, you apparently can't afford the experts who can tell you collectively that walruses and seals don't live in the Gulf of Mexico, let alone the experts who can tell you how to prevent, respond to, and stop this leak.

BP holds 37 leases in the Gulf of Mexico on which it drills for free, Exxon Mobil has 14, Chevron has 51, Shell has 28, and ConocoPhillips has 10. Between you all, that makes 140 leases on which you pay zero, not a penny in royalties to the American people or to the people of the Gulf for the right to drill for oil and reap billions and billions of dollars in profits.

Yet when you're asked can you stop the massive quantities of oil that are now ruining the beaches and marshland, killing the wildlife, and devastating the economy, you say no. You say you're not well equipped to deal with it, and these catastrophic impacts are simply unavoidable. That is unacceptable to the people in the Gulf of Mexico. It is unacceptable to the people of our country.

For years, you've gotten a free ride on some of your offshore drilling, which amounts to \$50 billion in royalties not paid over the lifetime of these leases. At the same time, when your free ride results in a major disaster, what we have seen today is the collective answer that we cannot effectively deal with the consequences of a geyser coming from the bottom of the ocean.

It is an embarrassment that your response plans are about seals and walruses and contain long-disconnected phone numbers for

long-deceased experts. It is an embarrassment that of your billions of dollars you've spent less than one-tenth of 1 percent on the development of safer technologies.

Your industry needs to step up to the plate and recognize the need for change. You need to change your emergency responses plans. You need to strengthen your safety measures. You need to invest more in new safety, response, and alternative energy technologies.

Mr. McKay, you must ensure that there is an independent capacity to guarantee that every claim is not going to be determined to be legitimate or not by the chief counsel of BP. There has to be an independent evaluation to ensure that legitimate claims are determined not by your own self-interest but by, in fact, an independent arbiter to ensure that these people are not harmed beyond that which they already have.

This disaster is a wake-up call for your industry. You need to heed this call. You need to bring to the table the plans that ensure that this never happens again, that we never see a response like this again; and we are going to be moving legislation that will accomplish that goal.

It would be better, however, if the industry was saying we understand now it just can't be voluntary. It has to be mandatory. These safety features and these response features, they have to be mandatory. We cannot any longer rely upon the voluntary. We see what the consequences for the people in the Gulf of our country.

This hearing is adjourned.

[Whereupon, at 2:24 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

THE WALL STREET JOURNAL.

The Oil Disaster Is About Human, Not System, Failure

By TONY BARR

In response to Tony Hayward's June 4 op-ed "What BP Is Doing about the Gulf Gusher": It is time that the publicity spin that BP is putting on this disaster is put into perspective. What is alarming about the content of the article is not so much what it says, but what it does not say.

Mr. Haywood, chief executive officer of British Petroleum, asks, "How could this happen?" The answer has largely to do with BP's inability to follow its existing well-construction policies and those of the industry generally.

The BP testimony to the House Committee on Energy and Commerce on May 25 says it all, but perhaps that material needs to be explained. From looking at that evidence, this is what we know:

1) When cementing the production casing the cementing crew, which was being supervised by BP, had difficulty landing the top plug into the casing shoe. This was the first "red flag" because a satisfactory cement job to the production string is fundamental to the safe operation on a go forward basis. The fact that the cement job did not go as planned should have caused the testing operation that followed to be carefully scrutinized, it clearly was not.

2) As is normal practice, the integrity of the pressure tight seal was tested by pressuring up on the casing and observing the pressure response. If pressure bleeds off there is clearly a problem with the pressure integrity of the shoe. However, industry practice dictates that a positive test, that is no pressure drop, is not diagnostic, simply because the reservoir pressure is sufficient to retain the pressure being applied. A negative test is useful because it is diagnostic of a failed cement job. In this case the test was positive.

3) Again, as is normal industry practice a negative pressure test was run, with pressure released from inside the casing and the pressure response was measured. In this case evidence has been bought before the committee that there was a 1,400 psi pressure response. This response is highly diagnostic and is therefore the second "red flag" and at this point the BP supervisors should have concluded that they had what the industry calls a "wet shoe." That is that the cement job had failed to form a seal at the casing around the reservoir which we know contains high pressure oil and gas.

4) At this point a decision should have been made to do a remedial cement job; this is an expensive operation, but having seen a 1,400 psi response, there was no choice.

5) The BP engineers then proceeded with the balance of the operation to temporarily abandon the well. This meant replacing the 14-pound-per-gallon mud that was in the wellbore with 8.5-pound-per-gallon sea water. The denser mud had been, up until this time, the primary pressure control and was keeping the hydrocarbons in place despite the lack of an adequate cement job at the casing shoe.

Given the two red flags that had been thrown up previously, one would have expected that as a precaution a cement plug would have been placed somewhere in the wellbore as a secondary pressure seal before this primary pressure control system (heavy mud) was evacuated from the

wellbore. But at the very least the mud replacement operation should have been heavily scrutinized. Clearly it was not.

6) Evidence provided at the hearing, including the pressure data transmitted from the rig for the last two hours before the explosion, is diagnostic. At 8:20 p.m. on the day of the explosion the pressure data suggest there was a constant flow of sea water being pumped into the drill pipe that was displacing the heavier mud system which was the primary pressure control for the well. The rate going in was 900 gallons per minute, but the flow data of mud coming out was steadily increasing from 900 gallons a minute at 8:20 p.m. to a rate of 1,200 gallons per minute at 8:34 p.m. During this 14-minute period one can conclude that hydrocarbons were flowing and pushing more fluid from the wellbore than was being pumped in.

This is what this data is supposed to monitor, but the well flow evidence would appear to have been ignored, because at this point the BP rig supervisors should have gone to a well kill operation and started to pump heavy mud back into the well bore to restore the primary control mechanism. Instead the mud continued to be evacuated.

7) At 9:08 there was another piece of evidence that is very clear cut. The sea water pump was shut down presumably to check the well stability. However, with the pump shut down a pressure increase was seen in the standpipe (SPP). This pressure response has to be associated with the reservoir flowing hydrocarbons and again at this point kill operations should have been initiated by the BP engineers.

8) From 9:08 p.m. to around 9:30, despite the sea-water pump either running at a constant volume or shut-in, the SPP continued to increase; again this is evidence that the well is producing hydrocarbons and should have caused a kill operation to be initiated.

9) At 9:30 p.m. the seawater pump was again shut-in to presumably observe what the well was doing, and again there is a notable increase in the standpipe pressure.

10) At 9:49 the SPP showed a very large increase and the explosion followed—this is obviously the point at which the gas and oil reached the drill floor and found an ignition source.

Mr. Hayward and BP have taken the position that this tragedy is all about a fail-safe blow-out preventer (BOP) failing, but in reality the BOP is really the backup system, and yes we expect that it will work. However, all of the industry practice and construction systems are aimed at ensuring that one never has to use that device. Thus the industry has for decades relied on a dense mud system to keep the hydrocarbons in the reservoir and everything that is done to maintain wellbore integrity is tested, and where a wellbore integrity test fails, remedial action is taken.

This well failed its casing integrity test and nothing was done. The data collected during a critical operation to monitor hydrocarbon inflow was ignored and nothing was done. This spill is about human failure and it is time BP put its hand up and admitted that.

Terry Barr

President

Samson Oil and Gas

Lakewood, Colo.

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Dr. E.G. (Skip) Ward, Associate Director, Offshore
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Thomas E. Williams, The Environmentally Friendly
Drilling Project

A group of those named in the Secretary of Interior's Report, "**INCREASED SAFETY MEASURES FOR ENERGY DEVELOPMENT ON THE OUTER CONTINENTAL SHELF**" dated May 27, 2010 are concerned that our names are connected with the moratorium as proposed in the executive summary of that report. There is an implication that we have somehow agreed to or "**peer reviewed**" the main recommendation of that report. **This is not the case.**

As outlined in the attached document, we believe the report itself is very well done and includes some important recommendations which we support. However, the scope of the moratorium on drilling which is in the executive

summary differs in important ways from the recommendation in the draft which we reviewed. We believe the report does not justify the moratorium as written and that the moratorium as changed will not contribute measurably to increased safety and will have immediate and long term economic effects. Indeed an argument can be made that the changes made in the wording are counterproductive to long term safety.

The Secretary should be free to recommend whatever he thinks is correct, but he should not be free to use our names to justify his political decisions.

The Primary Recommendation in the May 27, 2010 report, "INCREASED SAFETY MEASURES FOR ENERGY DEVELOPMENT ON THE OUTER CONTINENTAL SHELF" Given by Secretary Salazar to The President Misrepresents our Position

The National Academy of Engineering recommended us as contributors and reviewers of the recent Department of Interior "30 Day Review" of the BP Oil Spill. We were chosen because of our extensive petroleum industry expertise, and independent perspectives. The report states:

"The recommendations contained in this report have been peer-reviewed by seven experts identified by the National Academy of Engineering. Those experts, who volunteered their time and expertise, are identified in Appendix 1. The Department also consulted with a wide range of experts from government, academia and industry."

The BP Macondo blow out was a tragedy for eleven families, and an environmental disaster of worldwide scale. We believe the blowout was caused by a complex and highly improbable chain of human errors coupled with several equipment failures and was preventable. The petroleum industry will learn from this; it can and will do better. We should not be satisfied until there are no deaths and no environmental impacts offshore - ever. However, we must understand that as with any human endeavor there will always be risks.

We broadly agree with the detailed recommendations in the report and compliment the Department of Interior for its efforts. However, we do not agree with the six month blanket moratorium on floating drilling. A moratorium was added after the final review and was never agreed to by the contributors.

The draft which we reviewed stated:

"Along with the specific recommendations outlined in the body of the report, Secretary Salazar recommends a 6-month moratorium on permits for new exploratory wells with a depth of 1,000 feet or greater. This will allow time for implementation of the measures outlined in this report, and the

consideration of information and recommendations from the Presidential Commission as well as other investigations into the accident.

"In addition, Secretary Salazar recommends a temporary pause in all current drilling operations for a sufficient length of time to perform additional blowout preventer function and pressure testing and well barrier testing for the existing 33 permitted exploratory wells currently operating in deepwater in the Gulf of Mexico. These immediate testing requirements are described in Appendix 1."

We agree that the report and the history it describes agrees with this conclusion. Unfortunately after the review the conclusion was modified to read:

"The Secretary also recommends temporarily halting certain permitting and drilling activities. First, the Secretary recommends a six-month moratorium on permits for new wells being drilled using floating rigs. The moratorium would allow for implementation of the measures proposed in this report and for consideration of the findings from ongoing investigations, including the bipartisan National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling.

"The Secretary further recommends an immediate halt to drilling operations on the 33 permitted wells, not including the relief wells currently being drilled by BP, that are currently being drilled using floating rigs in the Gulf of Mexico. Drilling operations should cease as soon as safely practicable for a 6-month period."

We believe the moratorium as defined in the draft report addresses the issues evident in this case. We understand the need to undertake the limited moratorium and actions described in the draft report to assure the public that something tangible is being done. A blanket moratorium is not the answer. It will not measurably reduce risk further and it will have a lasting impact on the nation's economy which may be greater than that of the oil spill.

The report highlights the safety record of the industry in drilling over 50,000 wells on the US Outer Continental Shelf of which more than 2000 were in over 1000 feet of water and 700 were in greater than 5000 feet of water. We have been using subsea blowout preventers since the mid- 1960s. The

only other major pollution event from offshore drilling was 41 years ago. This was from a shallow water platform in Santa Barbara Channel drilled with a BOP on the surface of the platform.

The safety of offshore workers is much better than that of the average worker in the US, and the amount of oil spilled is significantly less than that of commercial shipping or petroleum tankers. The US offshore industry is vital to our energy needs. It provides 30% of our oil production, is the second largest source of revenue to the US Government (\$6 Billion per year), and has a direct employment of 150,000 individuals. The report outlines several steps that can be taken immediately to further decrease risk as well as other steps that should be studied to determine if they can be implemented in a way that would decrease risk even more.

This tragedy had very specific causes. A blanket moratorium will have the indirect effect of harming thousands of workers and further impact state and local economies suffering from the spill. We would in effect be punishing a large swath of people who were and are acting responsibly and are providing a product the nation demands.

A blanket moratorium does not address the specific causes of this tragedy. We do not believe punishing the innocent is the right thing to do. We encourage the Secretary of the Interior to overcome emotion with logic and to define what he means by a "blanket moratorium" in such a way as to be consistent with the body of the report and the interests of the nation.

The foregoing represents our views as individuals and does not represent the views of the National Academy of Engineering or the National Research Council or any of its committees.

Kenneth E. Arnold, PE, NAE

Dr. Robert Bea, Department of Civil and Environmental Engineering,
University of California at Berkeley

Dr. Benton Baugh, President, Radoil, Inc.

Ford Brett, Managing Director, Petroskills

Dr. Martin Chenevert, Senior Lecturer and Director of Drilling Research Program, Department of Petroleum and Geophysical Engineering, University of Texas

Dr. Hans Juvkam-Wold, Professor Emeritus, Petroleum Engineering, Texas A&M University

Dr. E.G. (Skip) Ward, Associate Director, Offshore Technology Research Center, Texas A&M University

Thomas E. Williams, The Environmentally Friendly Drilling Project

Theresa M. Fariello
Vice President
Washington Office

July 15, 2010

The Honorable Henry A. Waxman
Chairman
Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, D. C. 20515-6115

Dear Mr. Chairman:

Enclosed please find ExxonMobil's response to your written questions dated June 30, following the June 15, 2010 Subcommittee on Energy and Environment hearing entitled "Drilling Down on America's Energy Future: Safety, Security and Clean Energy."

Please feel free to contact me at 202-862-0235 if I can be of any further assistance.

Sincerely,



Cc: The Honorable Joe Barton
Ranking Member

The Honorable Diana DeGette
Member
Committee on Energy and Commerce

1. Has your company had a blowout on an offshore oil rig that was attributable in whole or in part to faulty cementing?

ExxonMobil's records, which are detailed back to the early 1980's, show no blowouts attributable in whole or in part to faulty cementing.

2. If yes, did the incident(s) occur in the Gulf of Mexico and what were the circumstances?

Not applicable.

3. Under what circumstances does your company currently perform cement bond log tests at offshore drilling wells in the Gulf of Mexico?

ExxonMobil has performed cement bond logs in the Gulf of Mexico to determine the top of cement in the annulus when analysis of data from the cement job execution indicates there is a potential that cement may not adequately cover all known hydrocarbon bearing zones. In many cases other tests and tools can provide more useful diagnostic data than a cement bond log. For example, depending on the specific well conditions a temperature log may be more appropriate than a cement bond log for determining top of cement. Bond logs may also be run to determine whether there is cement between production zones that must be isolated from each other, but it is understood that the log does not prove there is an actual seal.

4. Would you support a requirement to perform cement bond log tests at each offshore well?

ExxonMobil supports performing cement bond logs or other diagnostic tests to confirm top of cement in cases where cement job data (volumetric measurements, lift pressures, or annulus pressure tests) indicates inadequate cement height above hydrocarbons.

While bond logs may be useful for identifying the presence of cement, ExxonMobil does not believe they are capable of confirming an effective annular seal. The most advanced bond logging tools currently available are only capable of determining whether there is cement in direct contact with the casing and not whether cement is filling the entire annular space (reference SPE paper #101420).

Therefore, ExxonMobil does not support a requirement to perform a cement bond log at each offshore well.

5. Would you support a requirement that the ingredients in dispersants be made public?

ExxonMobil supports the disclosure of the chemical ingredients of dispersants. We understand and respect the proprietary or competitive nature of the exact formulations, and we are committed to working with the industry and the EPA on this topic, taking into account the current process for the evaluation, approval, and maintenance of business confidential information with respect to chemical products.

6. Would you support a requirement to disclose the ingredients, but not the proprietary chemical formula, used in hydraulic fracturing of oil and gas wells?

As stated in Mr. Tillerson's January 20, 2010, testimony before the Committee's Subcommittee on Energy and Environment, ExxonMobil supports the disclosure of the chemical ingredients of fracturing fluids. Mr. Tillerson also stated that ExxonMobil understands and respects the proprietary or competitive nature of the exact formulations, and that we are committed to working with the industry on this topic. Since that time, ExxonMobil chaired an API working group that advanced a recent revision of API's policy on fracturing fluid disclosure (attached).

With respect to supporting a requirement to disclose, in discussions with Ms. DeGette at the January hearing Mr. Tillerson noted that "the devil is always in the details." Without knowing the full implications and contours of such a requirement, it is impossible to say whether ExxonMobil would support it. Generally, ExxonMobil believes that state level oversight is most appropriate. State regulations offer the most comprehensive and effective means of protecting groundwater and the broader environment while accounting for local geology and other factors. States have held the traditional role in this area, and they are acting on fracturing fluid disclosure. Several states have already instituted new disclosure requirements, and several more have such regulatory changes under review. ExxonMobil supports the states working through this process in line with their traditional role.

POLICY POSITION OF API ON CHEMICAL DISCLOSURE FOR HYDRAULIC FRACTURING OPERATIONS

Hydraulic fracturing is and has been a routine industry practice since 1947. Hydraulic fracturing operations have safely enabled increased production of domestic oil and natural gas in more than 1 million wells over the last 60-plus years.¹ While America has abundant natural gas resources, most cannot be produced without this technology. Experts estimate that 90 percent of gas wells drilled in the United States utilize hydraulic fracturing in operations² and studies have shown this to be an environmentally safe practice.³

States have played, and continue to play, the critical role in the oversight and management of hydraulic fracturing operations and are best positioned to tailor requirements to local conditions and to closely monitor environmental performance. API supports transparency regarding the disclosure of the chemical ingredients used in hydraulic fracturing operations to ensure that state regulators have the ability to assess potential incident response needs and plan accordingly, with appropriate confidentiality protections.

Additionally, we endorse state programs that balance the need to protect oil field service company confidential business information with the public's need to know. Subject to an agreement of confidentiality, we support disclosure of proprietary formulations upon request by designated state agency representatives and health professionals in the event of an emergency, when the designated state agency representatives and health professionals have demonstrated a need to know such information in order to treat or diagnose patients. States must require the designated individuals to keep the supplied information confidential.

Hydraulic fracturing should not be regulated under the Safe Drinking Water Act (SDWA) or any other federal statute. Since hydraulic fracturing has been successfully managed at the state level, it would be problematic, unnecessary and duplicative to have any additional requirements at the federal level.

¹ "States Experience with Hydraulic Fracturing, A Survey of the Interstate Oil and Gas Commission", July 2002.

² Testimony Submitted To The House Committee On Energy And Commerce By Victor Carrillo, Chairman, Texas Railroad Commission, Representing The Interstate Oil And Gas Compact Commission, February 10, 2005.
<http://www.rrc.state.tx.us/commissioners/carrillo/press/energytestimony.html>

³ Environmental Protection Agency, "Study of Potential Impacts of Hydraulic Fracturing of Coalbed Methane Wells on Underground Sources of Drinking Water," Office of Ground Water and Drinking Water report, June 2004, accessed December 6, 2006; Ground Water Protection Council, "State Oil and Gas Regulations Designed to Protect Water Resources", May 2009; Ground Water Protection Council, "Inventory and Extent of Hydraulic Fracturing in Coalbed Methane Wells in the Producing States", 1998.

**Responses Submitted by Chevron to Follow-up Questions
from the June 15, 2010 Hearing by the
House Subcommittee on Energy and Environment**

The Honorable Edward J. Markey

1. Although our attention has rightly been focused on stopping and containing the massive oil spill in the Gulf of Mexico, and on making sure that BP and other responsible parties compensate the victims of this terrible tragedy, I want to ask you about another environmental disaster for which Chevron has attempted to minimize its responsibility.

Eighteen years ago, indigenous people in the jungle of Ecuador sued Texaco, Inc., which Chevron acquired in 2001, for spilling billions of gallons of toxic waste from oil wells drilled in the Amazon Rainforest. These spills have ruined lives and destroyed the indigenous people's way of life. It is estimated that Chevron's predecessor company's brazen disregard for its environmental responsibilities caused over \$27 Billion in damage. However, to this day, Chevron continues to fight the lawsuit, rather than work toward finding a solution to this issue.

- a. Is Chevron willing to finally admit its responsibility in this environmental disaster in the Ecuadorian Amazon by working with the plaintiffs to find a solution for the damage caused by the oil company it acquired nearly 9 years ago?
- b. In addition, although the laws of the United States make clear that the owner of an oil facility is liable for any damage it causes to the economy, people, and natural resources of the United States, what do you feel your company's obligations should be when it comes to compensating victims who are harmed by Chevron's actions outside the jurisdiction of the United States? Do these people too deserve to be recompensed for the terrible harm that oil operations can do? Why or why not?

Response: Chevron respectfully disputes both the factual allegations that are stated as the basis for this question and the presumption of Chevron's liability. Chevron properly has defended itself against the plaintiffs' false allegations in the litigation pending in Lago Agrio, Ecuador, and has sought the aid of U.S. courts in bringing to light evidence of corrupt and fraudulent conduct by the plaintiffs' U.S. and Ecuadorian lawyers. Chevron also has referred to Ecuador's Prosecutor General and to the U.S. Department of Justice evidence of serious misconduct by an Ecuadorian judge and the plaintiffs' U.S. and Ecuadorian lawyers in connection with that litigation. The evidence, which continues to mount, includes the judge's participation in a scheme to solicit millions of dollars in bribes, and the plaintiffs' representatives' collusion with Richard Cabrera, the Ecuadorian court appointee who presented the "\$27 Billion in damage" assessment cited in this question. Referring to that collusion, a U.S. federal district court judge held, on June 11, 2010, that "the provision of materials and information by consultants on the litigation team of the Lago Agrio plaintiffs in what appears to be a secret and an undisclosed aid of a supposedly neutral court-appointed expert in this Court's view constitutes a prima facie demonstration of a fraud on the tribunal."¹

Chevron welcomes this opportunity to set the record straight with regard to the litigation in Ecuador. Between 1964 and 1992, Texaco Petroleum Company ("TexPet"), a subsidiary of Texaco, Inc., participated in an oil-producing Consortium in the Amazon region of Ecuador. From 1976 onward, Ecuador's state-owned oil company, Petroecuador, held a controlling 62.5% interest in the Consortium. The Government of Ecuador reviewed and approved the Consortium's activities, and maintained what a

¹ June 11, 2010 Transcript of Proceedings, *In re Application of Chevron Corporation*, No. 10-2675-SRC (D. N.J.), at 44:11-16.

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U.S. federal district court has determined to be a “primary” and “uncontested” role in “authorizing, directing, funding, and profiting from” the Consortium’s activities.²

During the time period when TexPet participated in the Consortium, it did so safely, in accordance with Ecuadorian law, and in accordance with standard industry practices then in effect in other oil-producing nations, including the United States. The allegation included in the question above that TexPet spilled “billions of gallons of toxic waste” is false. That allegation appears to be based upon the plaintiffs’ repeated, intentional distortion of the fact that billions of gallons of geologic “formation water” or “produced water” were discharged by the Consortium, with full governmental approval, after separation of the hydrocarbons with which the water was produced. Produced water was not, and is not, regulated as “toxic waste” in the United States,³ and the plaintiffs have never demonstrated that any person or property ever was harmed by the Consortium’s discharge of produced water, nor have they shown that there is any lingering environmental effect from such discharge.

Also false are the allegations included in the question above that the lawsuit was brought by “indigenous people” and that the Consortium’s oil-producing activities “destroyed the indigenous people’s way of life.” First, the majority of the plaintiffs in the lawsuit (there are only 48 plaintiffs, not 30,000 as plaintiffs’ representatives routinely assert) are not indigenous residents of the Amazon but are “colonos” or settlers who migrated to the region in recent decades pursuant to Ecuadorian government policy. The *Frente de la Defensa de la Amazonia* (Amazon Defense Front), the group designated in the complaint as the beneficiary of the lawsuit, is led by settlers including Luis Yanza and Pablo Fajardo and does not legitimately represent the interests of indigenous people in the area.⁴ More importantly, credible scientists who have studied indigenous issues in the region have concluded that the Consortium’s oil operations caused relatively minor impacts on the indigenous way of life and that the vast majority of the deforestation and other changes in the Amazon region are caused by government-sanctioned activities including the settlement of people from other parts of Ecuador, logging, and large-scale clearing of the rain forest for rubber and palm oil plantations.⁵

When TexPet’s involvement in oil production in Ecuador ended in 1992 after Ecuador elected to increase the government’s ownership of the Consortium’s oil operations from 62.5% to 100%, two leading international contractors—one selected by Ecuador and one by TexPet—conducted separate environmental audits to ascertain the scope of environmental impacts from the Consortium’s operations. Both audit reports concluded that the Consortium had generally adhered to standard industry practices, but identified certain areas where environmental remediation would be beneficial. The audits estimated

² *Aguinda v. Texaco Inc.*, 142 F. Supp. 2d 534, 537 (S.D.N.Y. 2001).

³ See 42 U.S.C. § 6921(b)(2)(a); 40 C.F.R. § 261.4(b)(5); 40 C.F.R. § 261.24; see also John A. Veil *et al.*, Argonne National Laboratory, “A White Paper Describing Produced Water from Production of Crude Oil, Natural Gas, and Coal Bed Methane,” Jan. 2004, at 25.

⁴ See, e.g., Judith Kimerling, “Indigenous Peoples and the Oil Frontier in Amazonia: The Case of Ecuador, ChevronTexaco, and Aguinda v. Texaco,” NYU J. Int’l Law and Politics, Nov. 2006, at 631.

⁵ See, Bjorn Bjorkman, Dr. Douglas Southgate, Dr. Robert Wasserstrom, “Response to Mr. Cabrera’s Declarations About Alleged Harm to Indigenous Communities in the Petroecuador-Texaco Concession Area,” Sep. 2008.

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that the total cost to remediate the environmental impacts existing as of 1990 would be between approximately US\$8 million and US\$13 million.⁶

The Government of Ecuador and TexPet then agreed that TexPet would be responsible for remediating a portion of the environmental impacts commensurate with its 37.5% ownership of the Consortium. TexPet's minority share of the recommended remediation was performed by Woodward-Clyde, a leading international contractor selected from a list approved by the Government of Ecuador. After the expenditure of approximately US\$40 million for environmental remediation and community development projects, and the certification of the completion of the remediation by all competent authorities, Ecuador's national, provincial, and municipal governments all released TexPet and its affiliates from any further liability for environmental impacts arising out of the Consortium's operations.

All significant oil-related environmental impacts existing today in the Consortium's former area of operations are solely the responsibility of the Government of Ecuador. Such impacts are either remnants of the majority share of pre-1992 impacts assigned to Petroecuador in accordance with its 62.5% ownership of the Consortium, or they are new impacts created over the past 18 years in which Petroecuador has been the sole owner of substantially expanded operations in the area. Petroecuador has drilled more than 450 new wells in the area since 1992, compared to the 335 drilled by the Consortium between 1964 and 1992,⁷ and has compiled a poor environmental record during that time.

Furthermore, the Government of Ecuador has granted many other oil concessions in the Amazon region since 1964 and operations in those concession areas have caused various levels of environmental impacts. By 2008, only 21% of Ecuador's Amazonian oil production was coming from the former Petroecuador-TexPet concession area (approximately 50 million barrels), with more than 184 million barrels produced that year in other Amazonian concessions.⁸

There is no legitimate basis on which to attribute all oil-related environmental impacts in Ecuador's Amazon region to TexPet's minority participation in the Consortium before 1992 while ignoring Petroecuador's majority ownership of the Consortium before then and its sole ownership and greatly expanded operation of the Consortium's fields in the ensuing 18 years, as well as the much greater oil production by other operators in the Amazon region of Ecuador.

During the course of the litigation against Chevron in Ecuador, experts repeatedly have concluded that Woodward-Clyde appropriately remediated TexPet's stipulated, minority share of the Consortium's environmental impacts. Indeed, the first environmental expert retained by the plaintiffs in the litigation, Dr. Charles Calmbacher, testified during a March 29, 2010 deposition ordered by a U.S. federal district

⁶ See, Fugro McClelland, Final Environmental Field Audit for Practices 1964-1990, Oct. 1992, at E-1; HBT Agra, Environmental Audit and Assessment of the Petroecuador-Texaco Consortium Oil Fields Until June 30, 1990, Mar. 19, 1997, at 5-19.

⁷ See *Petroecuador diagnostica los daños ambientales pro crudo*, El Universo, Feb. 28, 2009.

⁸ Ecuadorian Ministry of Mines and Petroleum, Directorate of Hydrocarbons, *Estadística Hidrocarburífera* 2008.

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court that his inspection of sites remediated by Woodward-Clyde revealed no “significant contamination that posed immediate threat to the environment or to humans or wildlife around it.”⁹

Dr. Calmbacher further testified that the plaintiffs’ representatives were aware of his opinions regarding the remediated sites but nevertheless submitted reports in his name that contained radically different conclusions. Dr. Calmbacher testified that he had not written or authorized the two reports submitted under his signature, and had never even seen them before his deposition.¹⁰ Dr. Calmbacher testified that before he had parted ways with the plaintiffs’ lawyers he had concluded that they “were looking more towards the perhaps sensationalism or marketability of the reports to the public to make it look worse . . . than it might really be. They really wanted to play on the . . . emotions of others.”¹¹ He further testified that he had reviewed expert reports submitted by experts for Chevron and had concluded that Chevron’s experts were “perfectly good scientists” and that he had “no question” about their work.¹² Finally, Dr. Calmbacher testified that one of the plaintiffs’ U.S. lawyers, Steven Donziger, had attempted to persuade him not to appear and testify at the court-ordered deposition.¹³

The propriety of Woodward-Clyde’s remediation work also was confirmed by a panel of neutral experts appointed by the Ecuadorian court. At the outset of the litigation, the court ordered a proceeding in which judicial inspections of well sites and production stations were to be conducted by experts designated by each side and court-appointed “settling experts” were to resolve any discrepancies between the party-designated experts. In February 2006, after the judicial inspection of a former Consortium site known as Sacha 53, the settling experts issued a report concluding that the plaintiffs had failed to substantiate their claims of environmental contamination, that the remediation met the standards imposed by the Government of Ecuador, and that the remediated area posed no environmental risk.¹⁴ Water test results from the site directly refuted the plaintiffs’ claim that hydrocarbon contamination posed a significant risk to human health, although they did show a significant amount of fecal contamination in the water, likely a result of inadequate sewage systems in the area.¹⁵

After their claims were rejected by the panel of settling experts, the plaintiffs sought to abandon the court-ordered procedure and to have a single, global expert assessment performed. The court ultimately granted plaintiffs’ request and appointed Richard Cabrera, a mining engineer with no apparent qualifications for

⁹ Deposition of Charles W. Calmbacher, *In re Application of Chevron Corporation*, No. 1:10-MI-0076-TWT-GGB (N.D. G.A.), at 114:22–115:14 (Mar. 29, 2010).

¹⁰ *Id.*, at 112–113; 116–17.

¹¹ *Id.*, at 71:17–25.

¹² *Id.*, at 91:7–23.

¹³ *Id.*, at 144:14–146:3.

¹⁴ Settling Experts’ Judicial Inspection Report on SA-53 dated February 1, 2006 at 5:00 p.m., R. 92492–92587, *Maria Aguinda, et al. v. Chevron Corporation*, No. 002-2003.

¹⁵ *Id.*

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the task. Although Chevron has not yet been able to uncover the full extent of the collusion with Cabrera, the evidence discovered to date proves conclusively that the plaintiffs' representatives and consultants had extensive *ex parte* dealings with Cabrera and were the true authors of extensive portions, if not all, of his supposedly independent assessment.¹⁶ Chevron continues to pursue its investigation with the assistance of the U.S. courts, and has petitioned the Ecuadorian court to strike the fraudulent damages report and to conduct a full investigation of the secret dealings between Cabrera and the plaintiffs' representatives and consultants.¹⁷

Chevron also has brought a claim against the Government of Ecuador pursuant to the Bilateral Investment Treaty between the United States and Ecuador, based upon Ecuador's breaches of its settlement and release agreements with TexPet and its breaches of the Treaty's guarantees of fair, equitable and non-discriminatory treatment in connection with the litigation in Ecuador. In that claim, which is proceeding under the Rules of the United Nations Commission on International Trade Law before the Permanent Court of Arbitration in The Hague, Chevron has sought to enforce Ecuador's obligation to remediate any remaining environmental impacts from the Consortium's pre-1992 operations as well as any impacts arising from Petroecuador's greatly expanded operations over the past 18 years. The claim also seeks a declaration that any judgment against Chevron in the Ecuadorian litigation is unenforceable and that the Government of Ecuador is responsible for any liability that may be assessed against Chevron in that litigation, together with Chevron's costs of defense and other relief.¹⁸

¹⁶ Motion of Chevron Corporation to Strike the Expert Report of Richard Stalin Cabrera Vega filed May 21, 2010 at 4:35 p.m., *Maria Aguinda, et al. v. Chevron Corporation*, No. 002-2003; Motion of Chevron Corporation to Strike the Expert Report of Richard Stalin Cabrera Vega filed June 4, 2010 at 8:35 a.m., *Maria Aguinda, et al. v. Chevron Corporation*, No. 002-2003; Response of Chevron Corporation, regarding Motion to Strike Expert Report of Richard Stalin Cabrera Vega, filed July 12, 2010 at 2:39 p.m., *Maria Aguinda, et al. v. Chevron Corporation*, No. 002-2003.

¹⁷ *Id.*

¹⁸ Notice of Arbitration, *Chevron Corp. and Texaco Petroleum Co. v. The Republic of Ecuador*, Sep. 23, 2009.

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from the June 15, 2010 Hearing by the
House Subcommittee on Energy and Environment**

The Honorable Peter Welch

1. What financial steps – such as suspending dividends - has the company taken to protect itself should a court in Ecuador rule for the plaintiffs and award them the \$27 billion that the special master in the case has determined would be needed for recovery spending?

http://www.businesswire.com/portal/site/home/permalink/?ndmViewId=news_view&newsId=20100601007095&newsLang=en

Response: Chevron respectfully submits that, as detailed in response to the preceding question, the “\$27 billion” damages determination to which this question refers is the illicit product of collusion between Richard Cabrera (the court-appointed “special master”), the plaintiffs’ counsel, and the Amazon Defense Front (the designated beneficiary of the Ecuadorian lawsuit). On June 11, 2010, a United States federal district judge characterized that collusion as constituting “a fraud on the tribunal.”¹⁹ Further, the “facts” asserted in the June 1, 2010 Amazon Defense Front press release cited above have been demonstrated repeatedly to be false.²⁰ Chevron has petitioned the Ecuadorian court to strike the fraudulent damages report,²¹ and has asked the court and criminal authorities to conduct a full investigation into the conduct underlying its submission.

Neither the fraudulent damages report nor the misrepresentations in the Amazon Defense Front’s press releases provide any legitimate basis for Chevron to suspend the payment of dividends to its shareholders or to take any similar “financial steps.” Chevron will continue a vigorous defense in the Ecuador trial court against any attempted imposition of liability. In the event of an adverse trial court judgment, Chevron would expect to pursue its available appeals in Ecuador. And because the plaintiffs have threatened attempts to enforce an Ecuadorian judgment in the United States and other jurisdictions, Chevron has prepared to undertake a vigorous defense of any such actions. Chevron also has brought a claim against the Government of Ecuador pursuant to the Bilateral Investment Treaty between the United States and Ecuador, based upon Ecuador’s breaches of its settlement and release agreements with Texaco Petroleum Company and its breaches of the Treaty’s guarantees of fair, equitable and non-discriminatory treatment. In that claim, which is proceeding under the Rules of the United Nations Commission on International Trade Law before the Permanent Court of Arbitration in The Hague, Chevron has sought to enforce Ecuador’s legal obligation to remediate any remaining environmental impacts from the Consortium’s pre-1992 operations as well as any impacts arising from Petroecuador’s greatly expanded operations over the past 18 years. The claim also seeks a declaration that any judgment against Chevron in the Ecuadorian litigation is unenforceable and that the Government of Ecuador is responsible for any liability that may be assessed in that litigation, together with Chevron’s costs of defense and other relief.

¹⁹ June 11, 2010 Transcript of Proceedings, *In re Application of Chevron Corporation*, No. 10-2675-SRC (D. N.J.), at 44:16.

²⁰ See, <http://www.chevron.com/ecuador>.

²¹ Motion of Chevron Corporation to Strike the Expert Report of Richard Stalin Cabrera Vega filed May 21, 2010 at 4:35 p.m., *Maria Aguinda, et al.v. Chevron Corporation*, No. 002-2003; Motion of Chevron Corporation to Strike the Expert Report of Richard Stalin Cabrera Vega filed June 4, 2010 at 8:35 a.m., *Maria Aguinda, et al.v. Chevron Corporation*, No. 002-2003; Response of Chevron Corporation, regarding Motion to Strike Expert Report of Richard Stalin Cabrera Vega, filed July 12, 2010 at 2:39 p.m., *Maria Aguinda, et al.v. Chevron Corporation*, No. 002-2003.

**Responses Submitted by Chevron to Follow-up Questions
from the June 15, 2010 Hearing by the
House Subcommittee on Energy and Environment**

The Honorable Jim Matheson

I request that you respond to the following questions regarding the June 11, 2010 oil leak in a pipeline in Salt Lake City, Utah, which is owned by the Chevron Pipe Line Company. The spill resulted in approximately 33,000 gallons of oil being spilled from the broken pipeline into the Red Butte Creek in northern Salt Lake City. This creek feeds into the Jordan River, which is the main waterway that drains the Jordan River Watershed into the Great Salt Lake.

1. Chevron officials have said this is a very unusual accident. Was a situation like this accounted for in Chevron's pipeline safety plan? How can you guarantee a similar leak will not happen along other portions of your pipeline?

Response:

The Rangely pipeline is a 10 inch pipeline that extends 182.5 miles from Rangely, Colorado to Salt Lake City, Utah and traverses mountainous terrain with elevations as high as 10,000 feet. The incident is considered unusual in the sense that most pipeline breach events result from a third party striking the pipeline, corrosion, or mechanical failure of pipeline equipment. These typical factors do not appear to have contributed to this incident. In accordance with federal, state and local requirements, Chevron Pipe Line Company (CPL) maintains a number of plans to promote the safe operation of its pipelines, to reduce the risk of releases from its pipelines, and to implement emergency response procedures to protect human health and the environment in the event of a release from one of its pipelines.

Since the incident, CPL has taken several additional steps to promote the integrity of and reduce the potential for a release from the Rangely pipeline.

- CPL is actively participating in the Unified Command which was established to address this incident and includes representatives from the US Environmental Protection Agency, Utah Department of Environmental Quality (DEQ), City of Salt Lake and the Salt Lake Valley Health Department.
- CPL's pipeline repairs were observed, inspected and approved by the U.S. Department of Transportation (DOT) Pipeline & Hazardous Materials Safety Administration.
- CPL conducted a pipeline pressure test in excess of two times the typical operating pressure of the pipeline before reinitiating pipeline operations. The test protocol was approved by the Unified Command.
- CPL performed an aerial inspection along the Rangely pipeline before reinitiating operations.
- CPL has implemented various control center measures to enhance its leak detection capabilities.
 - CPL installed Telvent Supervisory Control And Data Acquisition's (SCADA) Pipe Line Monitoring software package which has been configured to provide enhanced computer-based leak detection and alarming.
 - CPL implemented new operating data trend reporting to provide controllers with visual trend analysis of leak detection data to facilitate earlier identification of potential leaks.
 - CPL has established tighter parameters to identify deviations between input and outlet volumes ("loss deviations"), which may be indicators of a potential leak, and tighter shut-in requirements. CPL implemented a line loss deviation cause log sheet to ensure controllers document the deviation and take appropriate action. A process has been established to escalate questionable line loss deviations to appropriate supervisors for further action.
- CPL is also reviewing additional longer-term improvement opportunities: For instance:

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- CPL plans to install a motor-operated valve on the up-gradient side of Red Butte Creek.
- CPL plans to complete a follow up "Smart Pig" inspection of the Rangely pipeline within the next six months which is three years ahead of the required schedule.
- CPL plans to review and continue in the future to explore new technologies which might be applied to simplify Rangely pipeline operations and oversight.

CPL and other members of the American Petroleum Institute and the Association of Oil Pipe Lines are supporting Congress's proposal to introduce legislation that would enhance state OneCall program standards, including a single point for enforcement of OneCall requirements and increased penalties for failure to follow the requirements. The proposal is part of the 2010 Pipeline Reauthorization Act which is expected to be presented to Congress sometime in the fourth quarter of this year.

2. Right now the purported cause of the spill is that a branch fell during a heavy windstorm, created an electric arc, which hit a metal fencepost that was driven to the ground just inches from the pipeline. When the electricity arced through that fencepost, it burned a hole in the pipeline. Do you agree with this preliminary assessment? If so, can you answer yet why the fencepost was within inches of the pipeline? Are there other pipelines similarly situated so close to metal fences or electrical substations?

Response:

CPL has removed the damaged segment of the pipeline that contains a hole approximately ½ inch in diameter and is cooperating with the operator of nearby electrical equipment, Rocky Mountain Power, to develop an analytical protocol to conduct analysis of the pipeline segment which will be submitted USDOT for approval. This work has not yet commenced. CPL expects that USDOT will provide oversight of the testing and that the results will be provided to the USDOT. Until the requisite analysis is completed, CPL cannot be certain what caused the pipeline failure. Notwithstanding this limitation, preliminary visual observations of the damaged pipeline appear consistent with damage caused by an electrical arc.

The pipeline was installed by Chevron in the early 1950s. The electrical equipment and security fence were installed by Rocky Mountain Power in the 1980s. CPL is still looking into the circumstances surrounding the placement of the fencepost in close proximity to the pipeline.

CPL has not identified any other metal fences or electrical substations within the Rangely pipeline easement.

3. The first time Chevron was aware of the leak was when the Salt Lake City Fire Department called them the next day. Can you explain the monitoring system for leaks in your pipelines and whether you believe the pipeline monitoring system was functioning properly? If so, why did it fail to detect the leak for over eight hours?

Response:

The leak detection system on the Hanna to Salt Lake City Pipeline (H-SLC) is comprised of crude oil positive displacement meters, pressure transmitters, SCADA system capabilities, and Excel log sheet calculations. The system's components are integrated to provide the controller with hourly calculations of line balance and pressures, and was providing that data at the time of the leak. In this case, interpreting the leak detection data was challenging because the pipeline's normal operating

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range is dynamic and has variations in flow rate, volume, and product and loss deviations. These variations arise due to the various grades of the crudes that are transported in batches of differing size through the pipeline and because the pipeline traverses considerable elevation changes.

CPL and the USDOT are currently investigating the circumstances surrounding the line failure. In fact, a USDOT representative visited the CPL Control Center on June 16, 2010, to review data and meet with CPL controllers. USDOT also recently issued a formal request for information to CPL. Until CPL and USDOT's investigations are complete, CPL cannot draw firm conclusions regarding the functioning of the pipeline monitoring system.

In the meantime, before reinitiating pipeline operations, CPL has reviewed alternatives to increase its leak detection capabilities on the Hanna to Salt Lake City segment of the pipeline and implemented the operational enhancements outlined in the response to Question 1.

4. When was the last inspection to the pipeline? Were there any violations cited during this inspection? How often are your pipelines inspected? Can you elaborate on what criteria and procedure are used to conduct these inspections?

Response:

The Rangely pipeline is regulated by the USDOT and must be inspected by CPL every five years. The Salt Lake Crude pipeline was last inspected by smart pig in 2008.

In addition, USDOT audited the pipeline in August of 2009 as part of its normal process and made no findings. USDOT has audited this pipeline system on average about every two years. A USDOT audit typically includes:

- A review of operations and maintenance procedures
 - A review operations and maintenance inspection records, including:
 - Corrosion control program (CP) – inspection of rectifiers, testing for CP coverage along the pipeline, atmospheric inspection
 - Patrolling the right-of-way & Line Markers
 - Inspecting Mainline Block Valves
 - Inspecting Overpressure safety devices
 - Training records of personnel
 - Firefighting equipment
 - Inspection of breakout tanks
 - Pipeline repair documents
 - A field inspection of facilities including valves, tanks and right-of-ways
5. It is my understanding that on Tuesday, June 15 the EPA established a Unified Command System with Chevron and that the EPA is reviewing Chevron's Incident Objectives. What are these Incident Objectives?

Response:

The Red Butte Unified Command has established the following incident objectives:

- Ensure the Safety of Citizens and Response Personnel

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- Minimize the Impact to the Environment
 - Contain and Recover Spilled Material
 - Manage and Coordinate Response Effort
 - Conduct Assessments and Shoreline Cleanup Efforts
 - Effectively Contain, Cleanup, Recover, and Dispose of Product
 - Identify Threatened Species and Prepare to Recover and Rehabilitate Injured Wildlife
 - Keep Stakeholders and Public Informed of Response Activities
 - Safely Resume Pipeline Operations
6. What standards do you use to determine when cleanup is complete and who will have the final approval of the cleanup process and certify that it is complete?

Response:

Cleanup is proceeding under the oversight of a Unified Command. CPL and its consultants are currently developing a proposed approach for cleanup and restoration activities for submission to the Unified Command for review and approval. The final cleanup plan will include completing the removal of recoverable oil based on applicable standards. The Unified Command (at least during the period in which it retains primary jurisdiction) and federal and state agencies (e.g., the USEPA and Utah DEQ) will continue to have oversight over cleanup, remediation and restoration activities.

**Responses Submitted by Chevron to Follow-up Questions
from the June 15, 2010 Hearing by the
House Subcommittee on Energy and Environment**

The Honorable Diana DeGette

1. Has your company had a blowout on an offshore oil rig that was attributable in whole or in part to faulty cementing?

Response:

Chevron has had well control issues on some wells related to cementing.

2. If yes, did the incident(s) occur in the Gulf of Mexico and what were the circumstances?

Response:

The following are incidents that occurred within our predecessor companies in the Gulf of Mexico:

Location	Incident Description	Corrective Action	Volume Spilled
Texaco Green Canyon Block 0006 Well A-9	Nov 12, 1989: a well flowed after the surface casing was set and cemented.	Closing of the annular preventer and flow was diverted.	No oil released
Texaco Galveston Block 006 Well A-5	May 10, 1990: mud rose up due to the well being kept full with mud while waiting on cement to set.	Closing of the annular preventer and mud and gas were diverted through the diverter line.	No oil released
Unocal High Island A572 Well C-23	April 7, 2000: The surface casing was run and cemented the full length of string to surface. The surface riser was drained before the cement was fully hardened allowing the well to flow water.	Pumped heavy salt water to regain well control.	No oil released

3. Under what circumstances does your company currently perform cement bond log tests at offshore drilling wells in the Gulf of Mexico?

Response:

In Chevron's Gulf of Mexico shelf wells, cement bond logs are typically run on production casing/liners only when the execution of cement jobs do not go as planned and there is uncertainty in the coverage of oil and gas pay intervals with cement. For Chevron's Gulf of Mexico deepwater wells, we perform cement bond logs on each production liner and production casing strings.

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4. Would you support a requirement to perform cement bond log tests at each offshore well?

Response:

On wells where we have significant knowledge of the reservoir and its characteristics, cement bond log tests would not provide safer operations and should not be required. For wells in new areas where we do not have the same level of knowledge of the reservoir, we would support a requirement for a cement bond log test. We recommend that such specific technical requirements be implemented through regulatory processes rather than legislation.

5. Would you support a requirement that the ingredients in dispersants be made public?

Response:

The dispersants currently being used by the energy sector are biodegradable and have already been approved by the U.S. Environmental Protection Agency (EPA) and the U.S. Coast Guard.²² Appropriate disclosure is a government decision.

6. Would you support a requirement to disclose the ingredients, but not the proprietary chemical formula, used in hydraulic fracturing of oil and gas wells?

Response:

Chevron supports state program requirements around disclosure with the understanding that specific formulations will not be publicly disclosed to protect proprietary service company information, but we do not believe Federal legislation is necessary to achieve this as states are already implementing disclosure programs. We don't feel Federal legislation should be enacted prior to EPA completing the hydraulic fracturing study requested by Congress.

²² API, Use of Dispersants Briefing Paper 6.9.10



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 202-833-0900

July 20, 2010

The Honorable Diana DeGette
 United States House of Representatives
 2335 Rayburn House Office Building
 Washington, DC 20515

Dear Representative DeGette:

This letter is in response to the Committee on Energy and Commerce's letter to Mr. James Mulva, Chairman and Chief Executive Officer of ConocoPhillips, dated June 30, 2010. Please find herein ConocoPhillips's answers to the six questions included in that letter that you have asked of Mr. Mulva in relation to his June 15, 2010 testimony before the Subcommittee on Energy and Environment.

Question #1:

Has your company had a blowout on an offshore oil rig that was attributable in whole or in part to faulty cementing?

To our knowledge, ConocoPhillips has never experienced an offshore blowout as a result of faulty cementing. We have experienced fluid flow after cementing, but these flows were recognized and managed without becoming uncontrolled.

Question #2:

If yes, did the incident(s) occur in the Gulf of Mexico and what were the circumstances?

None experienced.

Question #3:

Under what circumstances does your company currently perform cement bond log tests at offshore drilling wells in the Gulf of Mexico?

Our company would most likely run a cement bond log in situations where cementing did not go as planned. Examples would be situations of significant loss of circulation or times when the cement pumped would be insufficient for the purpose of isolating hydrocarbon bearing zones.

Question #4:

Would you support a requirement to perform cement bond log tests at each offshore well?

We believe it is important to have two primary barriers to control hydrocarbons that have been pressure-tested. If two barriers are present in addition to cement, we do not believe the use of cement bond logs would be necessary. In circumstances where cement is utilized as one of the two primary barriers, we could support the use of cement bond logs.

Question #5:

Would you support a requirement that the ingredients in dispersants be made public?

ConocoPhillips supports disclosure of information that protects people and the environment against known and suspected harm. We also believe that such disclosures can be made using methods that respect and protect proprietary information. Based upon these beliefs, we would support disclosure of the chemical ingredients used in dispersants so long as all related proprietary information is protected. We would also support the release of details relating to toxicity tests and the commission of studies that evaluate the long-term impacts of large-scale dispersant use in the Gulf of Mexico.

Question #6:

Would you support a requirement to disclose the ingredients, but not the proprietary chemical formula, used in hydraulic fracturing of oil and gas wells?

In line with our company's beliefs stated in our response to question # 5, we would support disclosure of the chemical ingredients used in hydraulic fracturing so long as all related proprietary information is protected. We believe that states have designed and effectively enforce appropriate regulations for hydraulic fracturing and we support their ability to access all information necessary to respond to emergency situations. Therefore, federal regulation in this regard is unnecessary.

Warm regards,



Red Cavaney

Shell Response to the Honorable Diana DeGette

1. Has your company had a blowout on an offshore oil rig that was attributable in whole or in part to faulty cementing?

No.

2. If yes, did the incident(s) occur in the Gulf of Mexico and what were the circumstances?

Not applicable.

3. Under what circumstances does your company currently perform cement bond log tests at offshore drilling wells in the Gulf of Mexico?

We perform bond logs to verify the desired production zone is sealed above and below the production interval. The log is typically run just prior to perforating the interval for production, which may be weeks or months after the well was drilled, cased and cemented. We also run cement bond logs on production wells when the execution of the cement job is not confirmed by way of observing the top of cement, or the cement return rate is not within the allowable range.

In most cases, Shell's well design in the Gulf of Mexico (e.g., production liners with mechanical seals deep in the well) does not depend on the cement to provide either of the dual independent barriers in the well. In these cases, we only use bond logs to ensure isolation of the production zone before we initiate production. In rare cases where we do rely on the cement to provide one of the dual barriers, we do run a bond log if the cement job shows any indication of questionable integrity.

4. Would you support a requirement to perform cement bond log tests at each offshore well?

We do not support a requirement to perform a cement bond log on every well because it is not necessary. As stated in the above response, Shell does not depend on the cement bond as an independent barrier. For well designs that rely on the cement behind casing as one of the required barriers we would support a bond log requirement.

5. Would you support a requirement that the ingredients in dispersants be made public?

We continue to support the testing of dispersants and any other chemicals put into the environment as appropriate and requested by the government. This would include testing of the effectiveness of the dispersant when applied to a variety of oil types (API gravity, viscosity, temperature when applied, energy required to mix in to the oil, etc.) and toxicity testing. The responsibility for such testing should reside with

both the manufacturer and the government agency with appropriate jurisdiction for placing on the National Priorities List (presently, EPA for dispersant products). While we do not oppose making the list of ingredients public, we do understand that there could be some proprietary, intellectual property concerns from the manufacturer and would expect that when this is the case, this can be managed via confidentiality agreements between the regulator and the manufacturer.

6. Would you support a requirement to disclose the ingredients, but not the proprietary chemical formula, used in hydraulic fracturing of oil and gas wells?

Shell supports the disclosure of hydraulic fracturing fluid ingredients to state regulators, under proper agreement of confidentiality.

We believe the efforts by the states of Colorado and Wyoming to make disclosure a key element of their new oil and gas rules is good for both industry and the public. Shell has operations in the state of Wyoming and was engaged during the development of the recently approved rules for hydraulic fracturing. These revised rules define appropriate disclosure regulations, while also providing an appropriate level of confidentiality to the service companies that own the rights to the fluids. We view the new Wyoming rules as uniquely progressive.

The oil and natural gas industry has maintained that natural gas is a clean, abundant and domestic energy source that has created approximately 2.8 million American jobs and is vital to our nation's clean-energy future and economy. Hydraulic fracturing is a proven technology that has been continuously improved over 60 years. It has allowed companies to safely produce natural gas from more than 1 million natural gas wells in the U.S. The Environmental Protection Agency, Ground Water Protection Council, Interstate Oil and Gas Compact Commission and others have all examined the process and found it to be safe.

Shell is an active stakeholder in the ongoing EPA scientific study exploring the potential relationships between hydraulic fracturing and drinking water resources. As in previous studies, we believe that this research will confirm the integrity of containment measures, the general low toxicity and low concentrations of chemicals as used during hydraulic fracturing, and the appropriateness of state regulation. Shell welcomes any findings that improve our health, safety, and environmental performance.